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SENATE FILE 2449

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 2343)

Passed Senate, ^(P. 926) Date 3/20/96 Passed House, ^(P. 1053) Date 3/27/96
 Vote: Ayes 46 Nays 4 Vote: Ayes 95 Nays 4
 Approved [Signature] 5/29/96

A BILL FOR

1 An Act changing the computation of the inflation factors for the
 2 tax brackets and standard deduction under the individual
 3 income tax; changing the computation of taxable income of
 4 certain subchapter S corporations and their shareholders;
 5 increasing inheritance tax exemptions for certain relatives;
 6 increasing the amount of the appropriations for homestead
 7 credit, military service credit, and low-income credit and
 8 reimbursement claims; providing income tax credits for
 9 investing in a qualified venture capital company; establishing
 10 incentives for family farm animal feeding operations and
 11 making an appropriation; adjusting the funding for the family
 12 farm and agricultural land tax credits; and providing
 13 effective and applicability date provisions.

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

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DIVISION I
INCOME TAX INDEXATION

Section 1. Section 422.4, subsection 1, paragraph a, Code 1995, is amended to read as follows:

a. "Annual inflation factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual inflation factor, the department shall use the annual percent change, but not less than zero percent, in the implicit-price deflator-for-the-gross-national-product gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add one-half all of that percent change to one hundred percent. The annual inflation factor and the cumulative inflation factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual inflation factor shall not be less than one hundred percent.

Sec. 2. Section 422.4, subsection 2, paragraph a, Code 1995, is amended to read as follows:

a. "Annual standard deduction factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual standard deduction factor, the department shall use the annual percent change, but not less than zero percent, in the implicit-price-deflator-for-the gross-national-product gross domestic product price deflator

1 computed for the second quarter of the calendar year by the
2 bureau of economic analysis of the United States department of
3 commerce and shall add one-half all of that percent change to
4 one hundred percent. The annual standard deduction factor and
5 the cumulative standard deduction factor shall each be
6 expressed as a percentage rounded to the nearest one-tenth of
7 one percent. The annual standard deduction factor shall not
8 be less than one hundred percent.

9 Sec. 3. This division of this Act, being deemed of
10 immediate importance, takes effect upon enactment and applies
11 to the computation of the annual inflation factor and annual
12 standard deduction factor for calendar years beginning on or
13 after January 1, 1996. The department of revenue and finance
14 shall adjust the annual inflation factor and annual standard
15 deduction factor previously computed for the 1996 calendar
16 year to reflect the change made in the computation of those
17 factors in this Act.

18 DIVISION II

19 INHERITANCE TAX

20 Sec. 4. Section 450.9, subsections 2 and 3, Code 1995, are
21 amended to read as follows:

22 2. Each son and daughter, including legally adopted sons
23 and daughters, or stepsons and stepdaughters, or biological
24 sons and daughters entitled to inherit under the law of this
25 state, fifty two hundred thousand dollars.

26 3. Father or mother, fifteen fifty thousand dollars.

27 Sec. 5. Section 450.9, Code 1995, is amended by adding the
28 following new subsection after subsection 3:

29 NEW SUBSECTION. 3A. Each grandchild, fifty thousand
30 dollars.

31 Sec. 6. This division of this Act takes effect July 1
32 following enactment of the division and applies to the estates
33 of decedents dying on or after that date.

34 DIVISION III

35 HOMESTEAD, MILITARY, AND LOW-INCOME

1 TAX CREDIT AND REIMBURSEMENT

2 Sec. 7. Section 8.59, Code 1995, is amended to read as
3 follows:

4 8.59 APPROPRIATIONS FREEZE.

5 Notwithstanding contrary provisions of the Code, the
6 amounts appropriated under the applicable sections of the Code
7 for fiscal years commencing on or after July 1, 1993, are
8 limited to those amounts expended under those sections for the
9 fiscal year commencing July 1, 1992. If an applicable section
10 appropriates moneys to be distributed to different recipients
11 and the operation of this section reduces the total amount to
12 be distributed under the applicable section, the moneys shall
13 be prorated among the recipients. As used in this section,
14 "applicable sections" means the following sections: 53.50,
15 229.35, 230.8, 230.11, 405A.8, 411.20, ~~425.17~~-~~425.39~~-~~426A.17~~
16 663.44, and 822.5.

17 Sec. 8. Section 425.1, subsection 1, Code 1995, is amended
18 to read as follows:

19 1. A homestead credit fund is created. There is
20 appropriated annually from the general fund of the state to
21 the department of revenue and finance to be credited to the
22 homestead credit fund, ~~an amount sufficient~~ the sum of one
23 hundred fourteen million four hundred thousand dollars to
24 implement this chapter.

25 The director of revenue and finance shall issue warrants on
26 the homestead credit fund payable to the county treasurers of
27 the several counties of the state under this chapter.

28 Sec. 9. Section 425.17, subsection 2, paragraph b, Code
29 1995, is amended to read as follows:

30 b. A person filing a claim for ~~credit or~~ reimbursement
31 under this division who has attained the age of twenty-three
32 years on or before December 31 of the base year or was a head
33 of household on December 31 of the base year, as defined in
34 the Internal Revenue Code, but has not attained the age or
35 disability status described in paragraph "a", and was

1 domiciled in this state during the entire base year, and is
2 domiciled in this state at the time the claim is filed or at
3 the time of the person's death in the case of a claim filed by
4 the executor or administrator of the claimant's estate, and
5 was not claimed as a dependent on any other person's tax
6 return for the base year.

7 Sec. 10. Section 425.17, subsection 2, unnumbered
8 paragraph 2, Code 1995, is amended to read as follows:

9 "Claimant" under paragraph "a" ~~or "b"~~ includes a vendee in
10 possession under a contract for deed and may include one or
11 more joint tenants or tenants in common. In the case of a
12 claim for rent constituting property taxes paid, the claimant
13 shall have rented the property during any part of the base
14 year. If a homestead is occupied by two or more persons, and
15 more than one person is able to qualify as a claimant, the
16 persons may determine among them who will be the claimant. If
17 they are unable to agree, the matter shall be referred to the
18 director of revenue and finance not later than June 1 of each
19 year and the director's decision is final.

20 Sec. 11. Section 425.23, subsection 1, paragraph b, Code
21 1995, is amended by striking the paragraph and inserting in
22 lieu thereof the following:

23 b. The reimbursement for a claimant described in section
24 425.17, subsection 2, paragraph "b", shall be determined as
25 follows:

| 26 | Percent of rent constituting |
|-----------------------------|------------------------------|
| 27 If the household | property taxes paid allowed |
| 28 income is: | as a reimbursement: |
| 29 \$ 0 - 9,999.99 | 50 |
| 30 10,000 - 13,999.99 | 42 |
| 31 14,000 - 17,999.99 | 35 |
| 32 18,000 - 20,999.99 | 25 |
| 33 21,000 - 23,999.99 | 17 |
| 34 24,000 - 26,999.99 | 12 |

35 Sec. 12. Section 425.23, subsection 3, paragraph a, Code

1 1995, is amended to read as follows:
2 a. A person who is eligible to file a claim for credit for
3 property taxes due and who has a household income of six
4 thousand dollars or less and who has an unpaid special
5 assessment levied against the homestead may file a claim with
6 the county treasurer that the claimant had a household income
7 of six thousand dollars or less and that an unpaid special
8 assessment is presently levied against the homestead. The
9 department shall provide to the respective treasurers the
10 forms necessary for the administration of this subsection.
11 The claim shall be filed not later than September 30 of each
12 year. Upon the filing of the claim, interest for late payment
13 shall not accrue against the amount of the unpaid special
14 assessment due and payable. The claim filed by the claimant
15 constitutes a claim for credit of an amount equal to the
16 actual amount due upon the unpaid special assessment, plus
17 interest, payable during the fiscal year for which the claim
18 is filed against the homestead of the claimant. However,
19 ~~where the claimant is an individual described in section~~
20 ~~425.17, subsection 2, paragraph "b", and the tentative credit~~
21 ~~is determined according to the schedule in section 425.23,~~
22 ~~subsection 1, paragraph "b", subparagraph (2), the claim filed~~
23 ~~constitutes a claim for credit of an amount equal to one-half~~
24 ~~of the actual amount due and payable during the fiscal year.~~
25 The department of revenue and finance shall, upon the filing
26 of the claim with the department by the treasurer, pay that
27 amount of the unpaid special assessment during the current
28 fiscal year to the treasurer. The treasurer shall submit the
29 claims to the director of revenue and finance not later than
30 October 15 of each year. The director of revenue and finance
31 shall certify the amount of reimbursement due each county for
32 unpaid special assessment credits allowed under this
33 subsection. The amount of reimbursement due each county shall
34 be paid by the director of revenue and finance on October 20
35 of each year, drawn upon warrants payable to the respective

1 treasurer. There is appropriated annually from the general
2 fund of the state to the department of revenue and finance an
3 amount sufficient to carry out the provisions of this
4 subsection. The treasurer shall credit any moneys received
5 from the department against the amount of the unpaid special
6 assessment due and payable on the homestead of the claimant.

7 Sec. 13. Section 425.24, Code 1995, is amended to read as
8 follows:

9 425.24 MAXIMUM PROPERTY TAX FOR PURPOSE OF CREDIT OR
10 REIMBURSEMENT.

11 In any case in which property taxes due or rent
12 constituting property taxes paid for any household exceeds one
13 thousand dollars or six hundred dollars in the case of a
14 claimant described in section 425.17, subsection 2, paragraph
15 "b", the amount of property taxes due or rent constituting
16 property taxes paid shall be deemed to have been one thousand
17 dollars or six hundred dollars in the case of a claimant
18 described in section 425.17, subsection 2, paragraph "b", for
19 purposes of this division.

20 Sec. 14. Section 425.39, subsection 1, Code 1995, is
21 amended to read as follows:

22 1. The extraordinary property tax credit and reimbursement
23 fund is created. There is appropriated annually from the
24 general fund of the state to the department of revenue and
25 finance to be credited to the extraordinary property tax
26 credit and reimbursement fund, from funds not otherwise
27 appropriated, ~~an amount sufficient~~ the sum of twelve million
28 five hundred thousand dollars to implement this division.

29 Sec. 15. Section 425.40, Code 1995, is amended to read as
30 follows:

31 425.40 LOW-INCOME FUND CREATED.

32 1. A low-income ~~tax-credit-and rent~~ reimbursement fund is
33 created. There is appropriated annually from the general fund
34 of the state to the low-income rent reimbursement fund the sum
35 of thirteen million five hundred thousand dollars to fund rent

1 reimbursements under this division.

2 2. If the amount appropriated under subsection 1 plus any
3 supplemental appropriation made for purposes of this section
4 for a fiscal year is insufficient to pay all claims in full,
5 the director shall pay, ~~in full, all claims to be paid during~~
6 ~~the fiscal year for reimbursement of rent constituting~~
7 ~~property taxes paid or if moneys are insufficient to pay~~ all
8 such claims on a pro rata basis. ~~If the amount of claims for~~
9 ~~credit for property taxes due to be paid during the fiscal~~
10 ~~year exceed the amount remaining after payment to renters, the~~
11 ~~director of revenue and finance shall prorate the payments to~~
12 ~~the counties for the property tax credit.~~ In order for the
13 director to carry out the requirements of this subsection,
14 notwithstanding any provision to the contrary in this
15 division, claims for reimbursement for rent constituting
16 property taxes paid filed before May 1 of the fiscal year
17 shall be eligible to be paid in full during the fiscal year
18 and those claims filed on or after May 1 of the fiscal year
19 shall be eligible to be paid during the following fiscal year
20 ~~and the director is not required to make payments to counties~~
21 ~~for the property tax credit before June 15 of the fiscal year.~~

22 Sec. 16. Section 426A.1, Code 1995, is amended to read as
23 follows:

24 426A.1 APPROPRIATION.

25 There is appropriated from the general fund of the state
26 the ~~amounts necessary~~ sum of two million eight hundred
27 thousand dollars to fund the credits provided under this
28 chapter.

29 Sec. 17. This division of this Act takes effect July 1,
30 1996, and applies to homestead, military service, and low-
31 income tax credit and rent reimbursement claims payable in
32 fiscal years beginning on or after July 1, 1996.

33 DIVISION IV

34 SUBCHAPTER S. CORPORATIONS

35 Sec. 18. Section 422.4, Code 1995, is amended by adding

1 the following new subsection:

2 NEW SUBSECTION. 15A. "Subchapter S corporation" or "S
3 corporation" means a corporation for which a valid election
4 under section 1362(a) of the Internal Revenue Code is in
5 effect.

6 Sec. 19. Section 422.5, subsection 1, paragraph j, Code
7 1995, is amended to read as follows:

8 j. (1) The tax imposed upon the taxable income of a
9 nonresident shall be computed by reducing the amount
10 determined pursuant to paragraphs "a" through "i" by the
11 amounts of nonrefundable credits under this division and by
12 multiplying this resulting amount by a fraction of which the
13 nonresident's net income allocated to Iowa, as determined in
14 section 422.8, subsection 2, paragraph "a", is the numerator
15 and the nonresident's total net income computed under section
16 422.7 is the denominator. This provision also applies to
17 individuals who are residents of Iowa for less than the entire
18 tax year.

19 (2) The tax imposed upon the taxable income of a resident
20 shareholder in a subchapter S corporation which makes an
21 election pursuant to section 422.36, subsection 5, paragraph
22 "b", to be taxed as a regular corporation, shall be computed
23 by reducing the amount determined pursuant to paragraphs "a"
24 through "i" by the amounts of nonrefundable credits under this
25 division and by multiplying this resulting amount by a
26 fraction of which the resident's net income allocated to Iowa,
27 as determined in section 422.8, subsection 2, paragraph "b",
28 is the numerator and the resident's total net income as
29 computed under section 422.7 is the denominator. This
30 provision also applies to individuals who are residents of
31 Iowa for less than the entire tax year.

32 (a) In the case of a resident or part-year resident
33 shareholder in a subchapter S corporation which makes an
34 election under section 422.36, subsection 5, paragraph "b", to
35 be taxed as a regular corporation, a taxpayer must completely

1 fill out the return, determine the taxpayer's income tax as if
2 the taxpayer is not a resident shareholder in a corporation
3 which makes an election pursuant to section 422.36, subsection
4 5, paragraph "b", and pay the amount of tax which is owed.
5 The taxpayer shall then recompute the taxpayer's income tax
6 liability pursuant to this subparagraph on a special return.
7 This special return shall be filed with the regular return and
8 constitutes a claim for refund of the difference between the
9 amount of tax the taxpayer paid on the regular return and the
10 amount of tax determined on the special return. However, if
11 the amount of tax determined on the special return exceeds the
12 amount of tax paid on the regular return, the taxpayer shall
13 pay the additional amount of tax which is owed on the special
14 return.

15 (b) For any tax year, the aggregate amount of refund
16 claims that shall be paid pursuant to this subparagraph in
17 excess of revenue gains shall not exceed three million five
18 hundred thousand dollars. If, for a tax year, the aggregate
19 amount of refund claims filed pursuant to this subparagraph in
20 excess of revenue gains exceeds three million five hundred
21 thousand dollars, each claim for refund shall be paid on a pro
22 rata basis so that the aggregate amount of refund claims in
23 excess of revenue gains does not exceed three million five
24 hundred thousand dollars. For purposes of the calculation of
25 the three million five hundred thousand dollar limitation
26 provided by this subparagraph subdivision, the department
27 shall take into account all revenue gains as well as revenue
28 losses resulting from the application of the following
29 provisions, including, without limitation, revenue gains
30 arising when the tax calculated under this subparagraph is
31 greater, revenue gains resulting from the denial of tax
32 credits under section 422.8, subsection 6, revenue gains
33 resulting from the taxation of additional income under section
34 422.7, subsection 35, and revenue gains resulting from the
35 imposition of corporate income taxes on corporations making

1 the election specified in section 422.36, subsection 5,
2 paragraph "b". In the case where refund claims are not
3 allowed in full, the amount of the refund to which the
4 taxpayer is entitled under this subparagraph is the pro rata
5 amount that was paid and the taxpayer is not entitled to a
6 refund of the unpaid portion and is not entitled to carry that
7 amount forward or backward to another tax year. Taxpayers
8 shall not use refunds as estimated payments for the succeeding
9 tax year. The department shall determine by July 1 of the tax
10 year following the tax year for which the refund claim is
11 filed if the aggregate amount of refund claims in excess of
12 revenue gains exceeds three million five hundred thousand
13 dollars for the tax year. Notwithstanding any provision,
14 interest shall not be due on any refund claims that are paid
15 by September 1 of the tax year following the tax year for
16 which the refund claim is filed. For taxpayers that are
17 fiscal year filers, the amount of the refund claim allowed
18 shall be in the same ratio as the refund claims allowed for
19 the tax year in which the taxpayer's fiscal year began.

20 Sec. 20. Section 422.5, subsection 1, paragraph k,
21 subparagraph (3), unnumbered paragraph 3, Code 1995, is
22 amended to read as follows:

23 In the case of a resident, including a resident estate or
24 trust, the state's apportioned share of the state alternative
25 minimum tax is one hundred percent of the state alternative
26 minimum tax computed in this subsection. In the case of a
27 resident or part-year resident shareholder in a subchapter S
28 corporation which makes an election under section 422.36,
29 subsection 5, paragraph "b" to be taxed as a regular
30 corporation and a nonresident, including a nonresident estate
31 or trust, or an individual, estate, or trust that is domiciled
32 in the state for less than the entire tax year, the state's
33 apportioned share of the state alternative minimum tax is the
34 amount of tax computed under this subsection, reduced by the
35 applicable credits in sections 422.10 through 422.12 and this

1 result multiplied by a fraction with a numerator of the sum of
2 state net income allocated to Iowa as determined in section
3 422.8, subsection 2, paragraph "a" or "b", as applicable, plus
4 tax preference items, adjustments, and losses under
5 subparagraph (1) attributable to Iowa and with a denominator
6 of the sum of total net income computed under section 422.7
7 plus all tax preference items, adjustments, and losses under
8 subparagraph (1). In computing this fraction, those items
9 excludable under subparagraph (1) shall not be used in
10 computing the tax preference items. Married taxpayers
11 electing to file separate returns or separately on a combined
12 return must allocate the minimum tax computed in this
13 subsection in the proportion that each spouse's respective
14 preference items, adjustments, and losses under subparagraph
15 (1) bear to the combined preference items, adjustments, and
16 losses under subparagraph (1) of both spouses.

17 Sec. 21. Section 422.7, Code Supplement 1995, is amended
18 by adding the following new subsection:

19 NEW SUBSECTION. 35. In determining gain or loss from the
20 sale or other disposition of stock of a subchapter S
21 corporation which makes an election pursuant to section
22 422.36, subsection 5, paragraph "b" to be taxed as a regular
23 corporation, the basis of a taxpayer in that stock shall be
24 adjusted for Iowa income tax purposes under rules of the
25 director to reflect any adjustment in Iowa income taxes paid
26 by the taxpayer pursuant to section 422.5, subsection 1,
27 paragraph "j", subparagraph (2).

28 Sec. 22. Section 422.8, subsection 2, Code 1995, is
29 amended to read as follows:

30 2. a. Nonresident's net income allocated to Iowa is the
31 net income, or portion thereof of the net income, which is
32 derived from a business, trade, profession, or occupation
33 carried on within this state or income from any property,
34 trust, estate, or other source within Iowa. However, income
35 derived from a business, trade, profession, or occupation

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

22 b. A resident's income allocated to Iowa is the income
23 determined under section 422.7 reduced by items of income,
24 loss, and expenses from a subchapter S corporation which makes
25 an election pursuant to section 422.36, subsection 5,
26 paragraph "b", to be taxed as a regular corporation, which
27 passes directly to the shareholders under provisions of the
28 Internal Revenue Code, with the following adjustments:

29 (1) Add cash or value of property distributions made to
30 the extent paid from income upon which Iowa income tax has not
31 been paid as determined under rules of the director.

32 (2) Subtract the amounts of distributions made in
33 subparagraph (1) that were, under rules of the director,
34 distributed to the shareholder to enable the shareholder to
35 pay federal income tax on items of income, loss, and expenses

1 from a subchapter S corporation which makes an election
2 pursuant to section 422.36, subsection 5, paragraph "b", to be
3 taxed as a regular corporation, which pass directly to the
4 shareholders under provisions of the Internal Revenue Code.

5 Sec. 23. Section 422.8, Code 1995, is amended by adding
6 the following new subsection:

7 NEW SUBSECTION. 6. If the resident or part-year resident
8 is a shareholder of a subchapter S corporation which makes an
9 election pursuant to section 422.36, subsection 5, paragraph
10 "b", to be taxed as a regular corporation, subsections 1 and 3
11 do not apply to any income taxes paid to another state or
12 foreign country on the income from the subchapter S
13 corporation.

14 Sec. 24. Section 422.32, subsection 4, Code Supplement
15 1995, is amended to read as follows:

16 4. "Corporation" includes joint stock companies, and
17 associations organized for pecuniary profit, and publicly
18 traded partnerships and limited liability companies taxed as
19 corporations under the Internal Revenue Code and any
20 subchapter S corporation which has in effect an election under
21 section 422.36, subsection 5, paragraph "b", to be taxed as a
22 regular corporation.

23 Sec. 25. Section 422.32, Code Supplement 1995, is amended
24 by adding the following new subsection:

25 NEW SUBSECTION. 11. The term "value-added corporation"
26 means a corporation that purchases, receives, or holds
27 personal property of any description and which adds to its
28 value by a process of manufacturing, construction, processing,
29 or combining of different materials, and shall specifically
30 include the economic activity identified in divisions C and D
31 of the standard industrial classification codes appearing in
32 13 C.F.R. ch. 1(1-1-94 edition), with a view to selling the
33 finished product for gain or profit. A corporation engaged in
34 more than one business activity is a value-added corporation
35 if more than fifty percent of its gross receipts, figured on a

1 three-year annual average, or such shorter period as the
2 corporation shall have been in existence, are from the
3 processes previously identified.

4 Sec. 26. Section 422.35, unnumbered paragraph 1, Code
5 Supplement 1995, is amended to read as follows:

6 The term "net income" means the taxable income before the
7 net operating loss deduction, as properly computed for federal
8 income tax purposes under the Internal Revenue Code, or in the
9 case of subchapter S corporations that make an election
10 pursuant to section 422.36, subsection 5, paragraph "b", "net
11 income" means the sum of all items of distributive shares of
12 income, loss, and expenses of the corporation as determined
13 under rules of the director, with the following adjustments:

14 Sec. 27. Section 422.36, subsection 5, Code 1995, is
15 amended to read as follows:

16 5. a. Where Unless an election is made under paragraph
17 "b" to be taxed under this division, where a corporation is
18 not subject to income tax and the stockholders of such the
19 corporation are taxed on the corporation's income under the
20 provisions-of the Internal Revenue Code, the same tax
21 treatment shall-apply-to-such applies to the corporation and
22 such the stockholders for Iowa income tax purposes.

23 b. A subchapter S corporation which is a value-added
24 corporation which does business both within and without the
25 state may elect to be taxed as a regular corporation under
26 this division. The election shall be made not later than the
27 due date for filing its return for the first taxable year for
28 which the election is to be effective, including any
29 extensions beyond that date, on a form provided by the
30 director and signed by the shareholders holding more than one-
31 half of the shares of stock of the corporation on the last day
32 of the first taxable year for which the election is to be
33 effective. The election shall be effective for that taxable
34 year and for subsequent taxable years until revoked.

35 c. The corporation may revoke its election under paragraph

1 "b" by a revocation made not later than the due date for
2 filing its return for the taxable year for which the
3 revocation is to be effective, including any extensions beyond
4 that date, on a form provided by the director and signed by
5 shareholders holding more than one-half of the shares of stock
6 of the corporation on the last day of the first taxable year
7 for which the revocation is to be effective. However, a
8 corporation that has made an election under paragraph "b"
9 shall not be eligible to make an election under this paragraph
10 for revocation of the election under paragraph "b" for any
11 taxable year before its fourth taxable year following the
12 first taxable year for which the election under paragraph "b"
13 was effective, unless the director consents to the revocation.

14 Sec. 28. This division of this Act, being deemed of
15 immediate importance, takes effect upon enactment and applies
16 retroactively to January 1, 1996, for tax years of individuals
17 beginning on or after that date and for tax years of
18 corporations ending on or after that date.

19 DIVISION V

20 QUALIFIED VENTURE CAPITAL COMPANY

21 Sec. 29. NEW SECTION. 15E.175 DEFINITIONS.

22 As used in this section and sections 15E.176 and 15E.177:

23 1. "Iowa business" means a business or industry,
24 incorporated or unincorporated, which meets all the following
25 criteria:

26 a. Has or will have, within thirty days after a loan or
27 investment is made by a qualified venture capital company, at
28 least fifty percent of its employees or assets located in Iowa
29 and agrees to maintain at least fifty percent of its employees
30 or assets in Iowa following investment in the business by a
31 qualified venture capital company.

32 b. A business which is unable to raise equity capital or
33 obtain financing from conventional sources in order to remain
34 viable or to commence or expand its ability to provide goods
35 or services.

1 2. "Qualified venture capital company" means a
2 corporation, limited liability company, or a general or
3 limited partnership with its principal place of business
4 located within this state, which meets all of the following
5 requirements:

6 a. Has an initial private capitalization of not less than
7 twenty million dollars.

8 b. Is organized by the Iowa business investment
9 corporation, organized under division XV of this chapter, to
10 directly or indirectly through its subsidiaries or affiliates
11 invest in debt and equity securities of Iowa businesses.

12 c. Seeks approval from the federal small business
13 administration to establish a small business investment
14 company that is incorporated in Iowa and maintains its
15 principal place of business in this state the purpose of which
16 includes increasing the availability of funds for investment
17 in and loans to Iowa businesses.

18 d. Will provide or arrange for managerial and other
19 advice, assistance, and support for Iowa businesses.

20 e. Does not invest funds under this division for the
21 expansion of operations of an Iowa business in another state.

22 3. "Taxpayer" means an entity subject to tax under chapter
23 422, division III, chapter 422, division V, or chapter 432.

24 4. "Tax year" means for entities subject to the state
25 corporate income tax or the state franchise tax under chapter
26 422, division III or V, respectively, the tax year as defined
27 for those divisions or means for insurance companies subject
28 to the gross premiums tax under chapter 432, the calendar year
29 for which the premiums are taxed.

30 Sec. 30. NEW SECTION. 15E.176 TAX CREDITS.

31 1. For tax years beginning on or after January 1, 1997,
32 there is allowed a credit against that tax imposed under the
33 corporate income tax in chapter 422, division III, the
34 franchise tax in chapter 422, division V, or the gross
35 premiums tax in chapter 432, for investments made by the

1 taxpayer in a qualified venture capital company whose purpose
2 includes establishing or expanding Iowa business.

3 2. The amount of credit allowed under subsection 1,
4 subject to subsection 4, is computed as follows:

5 a. The amount of the qualified venture capital company's
6 investment in Iowa businesses is divided by the amount of new
7 cash invested in the qualified venture capital company.

8 b. The resulting percentage, which shall not exceed fifty
9 percent, is multiplied by the amount of the taxpayer's
10 investment in the qualified venture capital company.

11 c. The amount of the credit is equal to ten percent of the
12 product determined in paragraph "b".

13 d. The qualified venture capital company shall compute as
14 of the end of the qualified venture capital company's tax year
15 the amounts under paragraph "c" for each tax year the
16 qualified venture capital company is entitled to the credit.

17 3. The qualified venture capital company is allowed the
18 credit as computed each year in subsection 2 for up to ten
19 consecutive years beginning with the first year for which the
20 credit is taken.

21 If the amount of the credit exceeds the qualified venture
22 capital company's tax liability for the tax year, the excess
23 may be credited to the tax liability for the following five
24 tax years or until depleted, whichever is the earlier, and is
25 in addition to any other credit allowed under this section.

26 4. Notwithstanding the amount of credit computed in
27 subsection 2, the total amount of credits for all qualified
28 venture capital companies that shall be allowed under
29 subsection 1 for any fiscal year of the qualified venture
30 capital company shall not exceed one million two hundred fifty
31 thousand dollars and for all fiscal years of the qualified
32 venture capital company shall not exceed twelve million five
33 hundred thousand dollars. In determining if the credit
34 allowed has exceeded the fiscal year limit, credits carried
35 over from a previous tax year are not counted.

1 5. The credit provided for in subsection 2, to the extent
2 not previously utilized, shall be freely transferable to and
3 by subsequent transferees for a period of ten years from the
4 date the credit is first available to the qualified venture
5 capital company.

6 Sec. 31. NEW SECTION. 15E.177 COORDINATION OF RESOURCES.

7 If a qualified venture capital company is organized by the
8 Iowa business investment corporation on or before December 31,
9 1997, within ninety days following its organization, the
10 qualified venture capital company shall develop and submit a
11 written proposal to the shareholders of each business
12 development finance corporation organized pursuant to division
13 XIII of this chapter, calling for the investment of all the
14 assets of each business development finance corporation in
15 securities of the qualified venture capital company. A notice
16 of a special meeting of the shareholders of the business
17 development finance corporation and the written proposal made
18 to the business development finance corporation by the
19 qualified venture capital company shall be delivered to the
20 shareholders of each business development finance corporation
21 entitled to vote at the special shareholders meeting not less
22 than ten nor more than sixty days before the meeting date
23 given by the qualified venture capital company. Action on the
24 written proposal by the board of directors of the business
25 development finance corporation or any other person shall not
26 be required to call the special meeting or authorize voting on
27 the written proposal by the shareholders of the business
28 development finance corporation. If at the special meeting of
29 shareholders of the business development finance corporation
30 or any recesses thereof, a majority of the shareholders
31 present or represented at the special meeting approve the
32 investment proposed by the qualified venture capital company,
33 the business development finance corporation shall immediately
34 make such an investment of all of its assets. The investment
35 by a business development finance corporation of all of its

1 assets in the qualified venture capital corporation shall not
2 be considered a sale of assets other than in the usual and
3 regular course of business and division XIII of the Iowa
4 business development finance Act shall not apply to the
5 transaction. The qualified venture capital company may make
6 additional proposals as often as it desires to the
7 shareholders of each business development finance corporation
8 that did not approve the initial investment proposal. Except
9 for the requirement that a written proposal be presented to
10 the shareholders within ninety days of the organization of the
11 qualified venture capital company, the provisions of this
12 section shall apply to all additional proposals.

13 Sec. 32. Section 422.33, Code Supplement 1995, is amended
14 by adding the following new subsection:

15 NEW SUBSECTION. 9. There is allowed as a credit against
16 the tax determined in subsection 1 for a tax year an amount
17 equal to the qualified venture capital credit as provided in
18 section 15E.176. Notwithstanding any other provision, the
19 credit allowed for in this subsection shall be applied prior
20 to all other credits allowed the taxpayer. The taxpayer shall
21 not receive for the same investment a credit under subsection
22 8 and this subsection.

23 Sec. 33. Section 422.60, Code Supplement 1995, is amended
24 by adding the following new subsection:

25 NEW SUBSECTION. 4. There is allowed as a credit against
26 the tax determined in this division for a tax year an amount
27 equal to the qualified venture capital credit as provided in
28 section 15E.176. Notwithstanding any other provision, the
29 credit allowed for in this subsection shall be applied prior
30 to all other credits allowed the taxpayer. The allocation of
31 revenues to a city or county under section 422.65 shall be
32 determined as if the credit under this subsection had not been
33 taken.

34 Sec. 34. Section 432.1, Code 1995, is amended by adding
35 the following new subsection:

1 NEW SUBSECTION. 5. There is allowed as a credit against
2 the tax determined in subsection 1 or 2 for a tax year an
3 amount equal to the qualified venture capital credit as
4 provided in section 15E.176. Notwithstanding any other
5 provision, the credit allowed for in this subsection shall be
6 applied prior to all other credits allowed the taxpayer.

7 Sec. 35. 1992 Iowa Acts, chapter 1244, section 1,
8 subsection 2, paragraph e, unnumbered paragraph 1, as amended
9 by 1993 Iowa Acts, chapter 180, section 46, as amended by 1994
10 Iowa Acts, chapter 1201, section 29, is amended to read as
11 follows:

12 For transfer to the treasurer of state for the purpose of
13 facilitating the organization and private capitalization of
14 the small business investment company or other entity under
15 sections 15E.169 through 15E.171. If the small business
16 investment company or another entity for which the funds are
17 to be used is not organized ~~within-thirty-six-months-of-the~~
18 ~~effective-date-of-this-Act~~, unused funds shall revert to the
19 general fund of the state, however, if such an entity is
20 organized, the unused funds shall be transferred irrevocably
21 to the qualified venture capital company or other entity for
22 which the funds are to be used:

23 \$ 200,000

24 Sec. 36. APPLICABILITY. This division of this Act applies
25 for tax years of entities subject to the state corporate
26 income tax or franchise tax which begin on or after January 1,
27 1997. This division of this Act applies for calendar years
28 beginning on or after January 1, 1997, for entities subject to
29 the gross premiums tax under chapter 432.

30 DIVISION VI

31 FAMILY FARM FEEDING OPERATIONS

32 Sec. 37. NEW SECTION. 175A.1 SHORT TITLE.

33 This chapter shall be known and may be cited as the "Iowa
34 Family Farm Animal Feeding Operations Preservation Act".

35 Sec. 38. NEW SECTION. 175A.2 PURPOSE.

1 The purpose of this chapter is to address a grave threat to
2 traditional farmers who produce animals in this state and who
3 face capitalization barriers and the consolidation of animal
4 agriculture, which results in fewer individuals engaged in
5 farming. These conditions result in a loss in population,
6 unemployment and a movement of persons from rural communities
7 to urban areas accompanied by added costs to communities for
8 the creation of new public facilities and services. It is
9 therefore necessary to assist small and medium sized family
10 farm animal feeding operations in order to expand such
11 operations and preserve a way of life which has traditionally
12 supported Iowa's economy and communities.

13 Sec. 39. NEW SECTION. 175A.3 DEFINITIONS.

14 1. "Animal feeding operation" means the same as defined in
15 section 455B.161.

16 2. "Animal feeding operation structure" means the same as
17 defined in section 455B.161.

18 3. "Animal weight capacity" means the same as defined in
19 section 455B.161.

20 4. "Authority" means the agricultural development
21 authority established pursuant to section 175.3.

22 5. "Family farm animal feeding operation" or "operation"
23 means an animal feeding operation located on the land where
24 the owner of the operation also engages in farming activities
25 other than animal feeding operation activities, if all of the
26 following criteria are satisfied:

27 a. The total animal weight capacity of all animals other
28 than bovine animals owned by the person is two hundred
29 thousand pounds or less, and the total animal weight capacity
30 of bovine animals owned by the person is four hundred thousand
31 pounds or less.

32 b. A person holding an interest in the animal feeding
33 operation owns all animals confined and fed in the animal
34 feeding operation.

35 c. The person who owns the animal feeding operation raises

1 and harvests crops in the same or an adjoining county where
2 the animal feeding operation is located.

3 d. The person who owns the animal feeding operation is one
4 of the following:

5 (1) A natural person.

6 (2) A general partnership composed exclusively of natural
7 persons.

8 e. Each person who holds an interest in the animal feeding
9 operation resides in this state.

10 f. The animal feeding operation is located entirely within
11 the state.

12 6. "Farming" means the same as defined in section 175.2.

13 7. "Lending institution" means a bank, trust company,
14 mortgage company, national banking association, savings and
15 loan association, life insurance company, any state or federal
16 governmental agency or instrumentality, including without
17 limitation the federal land bank or any of its local
18 associations, or any other financial institution or entity
19 authorized to make farm operating loans in this state.

20 8. "Low or moderate net worth" means:

21 a. For an individual, an aggregate net worth of the
22 individual and the individual's spouse and minor children of
23 less than two hundred thousand dollars.

24 b. For any general partnership, an aggregate net worth of
25 all partners, including each partner's net capital in the
26 partnership, and of each partner's spouse and minor children
27 of less than three hundred thousand dollars. However, the
28 aggregate net worth of each partner and that partner's spouse
29 and minor children shall not exceed two hundred thousand
30 dollars.

31 9. "Net worth" means a person's total assets minus total
32 liabilities as determined in accordance with generally
33 accepted accounting principles with appropriate exceptions and
34 exemptions reasonably related to an equitable determination of
35 a person's net worth. Assets shall be valued at fair market

1 value.

2 10. "Note" means a bond anticipation note or other
3 obligation or evidence of indebtedness issued by the authority
4 pursuant to this chapter.

5 11. "Secured loan" means a financial obligation secured by
6 a chattel mortgage, security agreement, or other instrument
7 creating a lien on an interest in depreciable agricultural
8 property.

9 Sec. 40. NEW SECTION. 175A.4 ASSISTANCE PROGRAMS.

10 1. The authority shall administer programs under this
11 section to assist family farm animal feeding operations. The
12 department of revenue and finance shall assist the authority
13 in administering this section.

14 2. In order to assist a family farm animal feeding
15 operation in financing the operation, including by assisting
16 in whole or in part the acquisition of animals, or the
17 purchase of agricultural land, the purchase of agricultural
18 improvements or depreciable agricultural property, the
19 construction of buildings, facilities, or animal feeding
20 operation structures, related to the operation, the authority
21 shall do all of the following:

22 a. Cooperate with any other state agency or the federal
23 government, including supplementing assistance provided by
24 another state agency and the federal government.

25 b. Administer other programs provided under chapter 175,
26 including supplementing assistance provided by other programs.

27 c. Provide certification necessary to allow owners of
28 operations to claim an income tax credit as provided in
29 section 175A.5, and a property tax exemption pursuant to
30 section 427.1.

31 d. Administer the following programs:

32 (1) A loan guarantee program to provide for guaranteeing
33 of all or part of a loan made to the operation.

34 (2) An interest buy-down program, in which the authority
35 contracts with a participating lending institution to reduce

1 the interest rate charged on a loan to the operation. The
2 authority shall determine the amount that the rate is reduced
3 by considering the lending institution's customary loan rate
4 for the type of loan sought as certified to the authority by
5 the lending institution. As part of the contract, in order to
6 reimburse the lending institution for the reduction of the
7 interest rate on the loan, the authority may agree to grant
8 the lending institution any amount foregone by reducing the
9 interest rate on that portion of the loan which is three
10 hundred thousand dollars or less. However, the amount
11 reimbursed shall not be more than fifty percent of the amount
12 of interest foregone by the lending institution on the loan.

13 3. The amount of assistance awarded to a family farm
14 animal feeding operation shall be based on the extent to which
15 the following apply:

16 a. The operation has a low or moderate net worth.

17 b. The owner of the family farm animal feeding operation
18 utilizes a computer system using an application designed to
19 monitor herd performance, as approved by Iowa state
20 university.

21 c. The person managing the operation is actively engaged
22 in improving the management of the operation, which may
23 include participating in the livestock producers assistance
24 program provided pursuant to section 266.39D, or employing a
25 person qualified by the American registry of professional
26 animal science, who is actively engaged in the profession of
27 consulting with livestock producers for the purpose of
28 increasing production or enhancing performance of livestock.

29 4. In order to participate in a program administered under
30 this section, all of the following must apply:

31 a. The family farm animal feeding operation or any person
32 holding an interest in the operation is not classified as a
33 habitual violator as provided in section 455B.191.

34 b. The assistance provided by the authority under this
35 section is not used to construct, repair, or expand an

1 anaerobic lagoon or earthen manure storage basin as defined in
2 section 455B.161.

3 5. a. The authority shall adopt rules to administer this
4 section, including the enforcement of terms of a contract to
5 which the authority is a party. The authority may require a
6 lending institution or a family farm animal feeding operation
7 to submit evidence satisfactory to the authority that the
8 lending institution or operation has complied with the
9 authority's requirements.

10 b. The authority may inspect any records of a lending
11 institution or a family farm animal feeding operation which
12 are pertinent to the administration of a program. In order to
13 assure compliance with this section and rules adopted pursuant
14 to this section, the authority may establish by rule
15 appropriate enforcement provisions, including but not limited
16 to, the payment of civil penalties by a lending institution or
17 operation. The authority may also enforce the provisions of
18 this section or terms of the contract by bringing an action in
19 any court of competent jurisdiction to recover damages.

20 6. A lending institution and the borrower participating in
21 a program under this section shall each pay to the authority
22 one-half of an origination fee which shall not exceed one
23 percent of the loan. In addition, the lending institution
24 shall pay a fee equal to twenty-five basis points on the loan
25 to the authority on an annual basis.

26 Sec. 41. NEW SECTION. 175A.5 INCOME TAX CREDIT.

27 1. A family farm animal feeding operation which receives
28 at least ten thousand dollars in assistance under section
29 175A.4 as certified by the authority under section 175A.4
30 shall be entitled to receive a tax credit equal to ten percent
31 of all new investments made in the operation not later than
32 the tax year following the tax year in which the operation
33 receives assistance under section 175A.4.

34 2. For purposes of this section, "new investment" means
35 the capitalized cost of all real and personal property related

1 to the family farm animal feeding operation, including
2 animals; buildings and animal feeding operation structures
3 qualifying under this section; equipment; and other
4 improvements to the operation, purchased or otherwise acquired
5 or relocated to the operation. "New investment" does not
6 include intangible property, or furniture and furnishings.
7 For the purposes of this section, capitalized cost of property
8 shall be determined in accordance with accounting methods used
9 by the taxpayer in determining the taxpayer's income for state
10 tax purposes.

11 3. Any credit in excess of the tax liability for the tax
12 year may be applied to the tax liability for the following ten
13 years or until depleted, whichever occurs first.

14 4. The department of revenue and finance shall adopt any
15 rules necessary to administer this section.

16 Sec. 42. NEW SECTION. 175A.6 FAMILY FARM ANIMAL FEEDING
17 OPERATION FUND.

18 1. A family farm animal feeding operation fund is created
19 within the state treasury under the control of the authority.
20 The fund shall consist of any moneys appropriated by the
21 general assembly, fees paid to the authority, and any other
22 moneys available to and obtained or accepted by the authority
23 from the federal government or private sources for placement
24 in the fund. Moneys shall be deposited in the fund as
25 provided in section 175A.7. Not more than one hundred fifty
26 thousand dollars shall be available annually from the fund for
27 administration of section 175A.4. The assets of the fund
28 shall be used by the authority only for carrying out the
29 purposes of section 175A.1 and section 427.1, subsection 28.

30 2. In administering the fund the authority may do all of
31 the following:

32 a. Contract, sue and be sued, and adopt administrative
33 rules necessary to administer this section. However, the
34 authority shall not in any manner directly or indirectly
35 pledge the credit of the state.

1 b. Authorize payment from the fund for costs, commissions,
2 attorney fees, and other reasonable expenses, including
3 expenses related to carrying out duties necessary for
4 administering programs provided for under section 175A.4,
5 including for guaranteeing loans, and for the recovery of loan
6 moneys guaranteed or the management of property acquired in
7 connection with such loans.

8 3. Payments of interest, recaptures of awards, or
9 repayments of moneys provided in assistance under section
10 175A.4 shall be deposited into the fund. Section 8.33 does
11 not apply to any moneys in the fund until June 30, 2001.
12 Notwithstanding section 12C.7, interest or earnings on
13 investments or time deposits of the moneys in the fund shall
14 be credited to the fund.

15 4. The fund is subject to an annual audit as provided by
16 the authority. Moneys in the fund, which may be subject to
17 warrants written by the director of revenue and finance, shall
18 be drawn upon the written requisition of the authority's
19 executive director.

20 Sec. 43. NEW SECTION. 175A.7 STANDING APPROPRIATION.

21 For each fiscal year of the fiscal period beginning July 1,
22 1996, and ending June 30, 2002, there is appropriated twelve
23 million dollars from the general fund of the state to the
24 family farm animal feeding operation fund created in section
25 175A.6.

26 Sec. 44. Section 427.1, Code Supplement 1995, is amended
27 by adding the following new subsection:

28 NEW SUBSECTION. 28. The property of a family farm animal
29 feeding operation as defined in section 175A.3, which receives
30 at least ten thousand dollars in assistance awarded and
31 certified by the agricultural development authority under
32 section 175A.4 shall be exempt from taxation for a period of
33 five years, to the extent provided in this subsection.

34 a. The exemption shall apply as follows:

35 (1) It begins on January 1 of the year following the year

1 in which the family farm animal feeding operation receives
2 assistance under section 175A.4.

3 (2) It is limited to the market value, as defined in
4 section 441.21, of the property of the family farm animal
5 feeding operation. If the property of the family farm animal
6 feeding operation is assessed with other property as a unit,
7 the exemption shall be limited to the net market value of the
8 property of the family farm animal feeding operation
9 determined as of the assessment date.

10 b. In order to receive the exemption, the owner of the
11 operation must file for the exemption with the assessing
12 authority not later than the first of February of the first
13 year for which the exemption applies, on forms provided by the
14 agricultural development authority. The application shall
15 provide a description of the family farm animal feeding
16 operation subject to the exemption. The application shall be
17 accompanied by a certificate of assistance provided by the
18 agricultural development authority.

19 c. The assessing authority shall retain a permanent file
20 of current exemptions filed in the assessing authority's
21 office. Not later than July 6 of each year, the assessing
22 authority shall remit a statement certifying the total amount
23 of exemptions allowed under this subsection. After receiving
24 the certification, the agricultural development authority
25 shall draw warrants on the family farm animal feeding
26 operation fund created in section 175A.6 which shall be
27 payable to the assessing authority in the amount certified by
28 the assessing authority, and shall mail the warrants to the
29 assessing authorities on August 15 of each year. However, if
30 the family farm animal feeding operation fund does not have
31 sufficient moneys available to pay in full the total of the
32 amounts certified to the agricultural development authority,
33 the authority shall prorate unobligated and unencumbered
34 moneys in the fund to the assessing authorities.

35 Sec. 45. FUTURE REPEAL.

- 1 1. Sections 175A.5 and 175A.7 are repealed.
- 2 2. Section 427.1, subsection 28, is amended by striking
3 the subsection.
- 4 3. This section takes effect on July 1, 2002.
- 5 4. Notwithstanding this section, an income tax credit
6 granted pursuant to section 175A.5, or a property tax
7 exemption provided under section 427.1, subsection 28, shall
8 continue in effect and shall be administered and enforced
9 until its expiration as provided in this division of this Act.

10 DIVISION VII

11 FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

12 Sec. 46. Section 425A.1, Code 1995, is amended to read as
13 follows:

14 425A.1 FAMILY FARM TAX CREDIT FUND.

15 The family farm tax credit fund is created in the office of
16 the treasurer of state. There shall be transferred
17 appropriated annually to the fund the first-ten-million
18 dollars-of-the-amount-annually-appropriated-to-the
19 agricultural-land-credit-fund, provided-in-section-426.1 sum
20 of thirty-five million dollars. Any balance in the fund on
21 June 30 shall revert to the general fund.

22 Sec. 47. Section 425A.2, subsection 4, Code 1995, is
23 amended to read as follows:

24 4. "Designated person" means one of the following:

25 a. If the owner is an individual, the designated person
26 includes the owner of the tract or-a-person-related-to-the
27 owner-as, the owner's spouse, parent, grandparent, the owner's
28 child, grandchild, or stepchild, and their spouses, or the
29 owner's relative within the third degree of consanguinity, and
30 the relative's spouse.

31 b. If the owner is a partnership, a partner, or the
32 partner's spouse.

33 c. If the owner is a family farm corporation, a family
34 member who is a shareholder of the family farm corporation or
35 the shareholder's spouse.

1 d. If the owner is an authorized farm corporation, a
2 shareholder who owns at least fifty-one percent of the stock
3 of the authorized farm corporation or the shareholder's
4 spouse.

5 e. If the owner is an individual who leases the tract to a
6 family farm corporation, a shareholder of the corporation if
7 the combined stock of the family farm corporation owned by the
8 owner of the tract and persons related to the owner as
9 enumerated in paragraph "a" is equal to at least fifty-one
10 percent of the stock of the family farm corporation.

11 f. If the owner is an individual who leases the tract to a
12 partnership, a partner if the combined partnership interest
13 owned by the owner of the tract and persons related to the
14 owner as enumerated in paragraph "a" is equal to at least
15 fifty-one percent of the ownership interest of the
16 partnership.

17 Sec. 48. Section 426.1, Code 1995, is amended to read as
18 follows:

19 426.1 AGRICULTURAL LAND CREDIT FUND.

20 There is created as a permanent fund in the office of the
21 treasurer of state a fund to be known as the agricultural land
22 credit fund, and for the purpose of establishing and
23 maintaining this fund for each fiscal year there is
24 appropriated thereto to the fund from funds in the general
25 fund not otherwise appropriated the sum of thirty-nine twenty-
26 nine million one hundred thousand dollars of-which-the-first
27 ten-million-dollars-shall-be-transferred-to-and-deposited-into
28 the-family-farm-tax-credit-fund-created-in-section-425A-1.
29 Any balance in said fund on June 30 shall revert to the
30 general fund.

31 Sec. 49. This division of this Act, being deemed of
32 immediate importance, takes effect upon enactment and applies
33 to family farm tax credits and agricultural land credits
34 allowed for property taxes due and payable in fiscal years
35 beginning on or after July 1, 1996.

EXPLANATION

1
2 Division I - Under present law the tax brackets and
3 standard deduction for the state individual income tax are
4 adjusted by an inflation factor that uses 50 percent of the
5 change in the implicit price deflator for the gross national
6 product. The division increases this to 100 percent of the
7 change in the gross domestic product price deflator. The
8 division changes the reference from the gross national product
9 price deflator to the gross domestic product price deflator
10 since the former no longer exists.

11 This division of the bill applies retroactively to tax
12 years beginning on or after January 1, 1996.

13 Division II - Increases the inheritance tax exemption for
14 children from \$50,000 to \$200,000 for stepchildren from
15 \$15,000 to \$200,000, and for parents and grandchildren from
16 \$15,000 to \$50,000.

17 This division is effective July 1 following enactment for
18 estates of decedents dying on or after that date.

19 Division III - Fully funds the amounts of the homestead tax
20 credit, military service tax credit, and the elderly or
21 disabled tax credit and rent reimbursement for the 1996-1997
22 fiscal year and these amounts are appropriated annually from
23 then on. Under present law these credits were funded only to
24 the extent funded in the 1992-1993 fiscal year. The division
25 also appropriates \$13.5 million for the 1996-1997 fiscal year
26 for the low-income nonelderly or nondisabled property tax
27 relief for renters. Present law included homeowners but no
28 funding was available. The appropriation is continued for
29 subsequent fiscal years.

30 The division takes effect July 1, 1996, and applies to
31 homestead, military service, and low-income homestead tax
32 credit and rent reimbursement claims payable in fiscal years
33 beginning on or after July 1, 1996.

34 Division IV - Involves the taxation of subchapter S
35 corporations and their shareholders. A subchapter S

1 corporation is a corporation meeting certain federal tax
2 criteria that elects to have its income taxed directly to its
3 shareholders and thus exempting itself from corporate
4 taxation. Present state law allows this for state tax
5 purposes. This division allows certain subchapter S
6 corporation shareholders to elect to be taxed as regular
7 corporations for state tax purposes. These corporations must
8 do business both within and without the state and must be in
9 the business of adding value to products. By making the
10 election it is probable that the resident shareholders will
11 have a reduction in their state individual income tax.
12 However, the total reduction in resident shareholders'
13 individual income tax is limited to \$3.5 million. To ensure
14 that the total reduction does not exceed \$3.5 million special
15 calculations need to be made. First the tax is computed as if
16 the resident shareholder had not made the election and the tax
17 liability must be paid. Second, another special return is
18 filled out to compute the tax based upon the fact of the
19 election. This return is filed with the regular return and
20 the reduction in tax, if any, is claimed as a refund. Any
21 increase in tax must be paid. The department of revenue and
22 finance shall determine if the claims for refund total more
23 than \$3.5 million by July 1 of the following tax year and if
24 the claims are in excess of \$3.5 million each claimant
25 receives a pro rata amount. The amount of claim not refunded
26 is disregarded and may not be carried forward or backward.

27 The division takes effect upon enactment and applies
28 retroactively to January 1, 1996, for tax years of individuals
29 beginning on or after that date and for tax years of
30 corporations ending on or after that date.

31 Division V - Allows a corporation, financial institution,
32 or insurance company to take a corporate, franchise, or
33 insurance premiums tax credit for its investment in a
34 qualified venture capital company. The qualified venture
35 capital company is an entity formed by the existing Iowa

1 business investment corporation with an initial capitalization
2 of at least \$20 million. The purpose of the qualified venture
3 capital company is to invest primarily in debt and equity
4 securities of Iowa businesses. The total amount of the tax
5 credit for all taxpayers is computed each year based on the
6 total amount invested in Iowa businesses by the qualified
7 venture capital company as of the end of its fiscal year. The
8 amount of the annual tax credit for a single taxpayer is equal
9 to up to 10 percent of the taxpayer's investment in the
10 qualified venture capital company multiplied by the percentage
11 the investments in Iowa businesses represent of the total new
12 cash invested in the qualified venture capital company. The
13 tax credit is allowed for 10 consecutive years following the
14 first year the tax credit is taken by the taxpayer. The
15 division limits to \$1.25 million the total amount of tax
16 credits that can be taken by all taxpayers in any fiscal year
17 of the qualified venture capital company. The division also
18 limits to \$12.5 million the total amount of tax credits that
19 can be taken by all taxpayers in all fiscal years of the
20 qualified venture capital company. The division applies to
21 tax years beginning on or after January 1, 1997.

22 Division VI - Creates a new chapter entitled the "Iowa
23 Family Farm Animal Feeding Preservation Act". The division
24 provides that the purpose of the chapter is to assist
25 traditional farmers who produce animals in this state and who
26 face capitalization barriers and the consolidation of animal
27 agriculture. A family farm animal feeding operation is
28 defined to mean a person who is either a natural person or a
29 general partnership who owns an animal feeding operation
30 located on the land where the person engages in other farming
31 activities. Additional requirements relate to the operation's
32 animal weight capacity, the extent to which the owner of the
33 operation is a party to a contract feeding arrangement,
34 whether the owner of the operation raises and harvests crops
35 on land where the animal feeding operation is located, and the

1 manner in which the operation is organized.

2 The division provides for the administration of programs by
3 the agricultural development authority to assist family farm
4 animal feeding operations, including a loan guarantee program,
5 and an interest buy-down program. The authority must award
6 assistance based on whether an operation has a low or moderate
7 net worth, utilizes an approved computer system for monitoring
8 herd performance, and benefits from programs designed to
9 improve the management of the operation. In order to
10 participate in a program, the operation cannot be owned by a
11 person classified as a habitual violator under section
12 455B.191. The division prohibits assistance being used to
13 construct, repair, or expand an anaerobic lagoon or earthen
14 manure storage basin. The division requires the authority to
15 adopt rules to administer the programs, including the payment
16 of civil penalties by persons violating agreements with the
17 authority.

18 The division establishes a family farm animal feeding
19 operation fund in order to support the assistance programs.
20 Not more than \$150,000 available from the fund may be used
21 annually by the authority for administration. The division
22 provides a standing appropriation of \$12 million for each year
23 until June 30, 2002.

24 The division provides for an income tax credit for an
25 operation which receives assistance from the authority. The
26 tax credit is equal to a maximum of 10 percent of all new
27 investment made by the operation not later than one year
28 following the year in which the operation received assistance.
29 The new investment includes the capitalized cost of all real
30 and personal property related to the operation. Any credit in
31 excess of the tax liability for the tax year may be applied to
32 the tax liability for the following 10 years or until
33 depleted, whichever occurs first.

34 Finally, the division provides that a family farm animal
35 feeding operation which qualifies for assistance is exempt

1 from property taxes for five years. The division provides
2 procedures for filing for the exemption with the assessing
3 authority on a form provided by the department of revenue and
4 finance.

5 The division provides that the income tax credit and
6 appropriation provisions of the division are repealed on July
7 1, 2002.

8 Division VII - Increases the appropriation to the family
9 farm tax credit and expands the definition of individuals who
10 are eligible to receive the credit. The appropriations for
11 the agricultural land credit fund is reduced but no amount of
12 the fund is to be used to fund the family farm tax credit as
13 is done under present law so that the actual effect is no
14 change in amount of money available for agricultural land
15 credit.

16 The division applies to credits allowed for property taxes
17 due and payable in fiscal years beginning on or after July 1,
18 1996.

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SENATE FILE 2449

S-5441

1 Amend Senate File 2449 as follows:

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

4 "DIVISION

5 PROPERTY TAX STUDY

6 Sec. _____. The legislative council shall direct the
7 establishment of a legislative committee to study the
8 system of local government property taxation. The
9 committee shall conduct a comprehensive review of the
10 property tax system in Iowa, including identifying the
11 various classes of property taxpayers, the portion of
12 property taxes collected from each class of taxpayer,
13 the distribution of those taxes to local governments,
14 and the value of local government services received by
15 a class of taxpayers in relation to the amount of
16 property taxes paid by that class. The committee
17 shall also examine the current system of property tax
18 credits and exemptions allowed to taxpayers, tax
19 increment financing and tax abatement programs,
20 property tax credits and exemptions, the effect of tax
21 abatement programs, and tax increment financing on the
22 tax rates applied to the other classes of property,
23 and the general authority of local officials to abate
24 property taxes.

25 As an integral part of the collection of taxes by
26 local governments, the committee shall also review the
27 budgeting procedures and practices of local
28 governments, including the process of estimating and
29 spending ending fund balances; the authorization to
30 use, or the practice of using, unexpended funds or
31 ending fund balances for capital improvements or other
32 nonrecurring expenditures; and the impact on property
33 tax rates of actions of the school budget review
34 committee, the state appeal board, the application of
35 the property tax rollback, and the application of
36 equalization orders issued by the department of
37 revenue and finance.

38 The committee shall also review the use of property
39 taxes as the sole or major source of funding for
40 school, city, and county services and the use of
41 alternate sources of revenues to pay for such
42 services, the repayment of bonds or other debt
43 obligations by local governments, the use of alternate
44 sources of revenue to repay bonds or other debt
45 obligations, and the current statutory requirements
46 for the issuance of bonds or other debt obligations by
47 local governments."

48 2. Title page, line 12, by inserting after the
49 word "credits;" the following: "establishing a study
50 of the property tax system as the sole or major source

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- 1 of local funding and of alternate sources of funding
- 2 for school, city, and county services, the repayment
- 3 of bonds or other debt obligations, and capital
- 4 improvements;"
- 5 3. By renumbering as necessary.

By EMIL J. HUSAK
LARRY MURPHY
BRAD BANKS

S-5441 FILED MARCH 20, 1996

ADOPTED (P. 923)

SENATE FILE 2449

S-5380

- 1 Amend Senate File 2449 as follows:
- 2 1. Page 24, by striking line 18 and inserting the
- 3 following: "utilizes a computer or recordkeeping
- 4 system designed to".

By MERLIN E. BARTZ

S-5380 FILED MARCH 18, 1996

Adopted 3-20-96
(P. 921)

SENATE FILE 2449

S-5442

1 Amend Senate File 2449 as follows:

2 1. Page 2, by striking lines 20 through 30 and
3 inserting the following:

4 "Sec. _____. Section 450.7, subsection 1, unnumbered
5 paragraph 1, Code Supplement 1995, is amended to read
6 as follows:

7 Except for the share of the estate passing to the
8 surviving spouse, father or mother, each son and
9 daughter, including legally adopted sons and daughters
10 or biological sons and daughters, stepchildren, and
11 grandchildren, the tax is a charge against and a lien
12 upon the estate subject to tax under this chapter, and
13 all property of the estate or owned by the decedent
14 from the death of the decedent until paid, subject to
15 the following limitation:

16 Sec. _____. Section 450.9, subsection 1, Code 1995,
17 is amended to read as follows:

18 1. Surviving spouse, father or mother, son or
19 daughter, including legally adopted sons and daughters
20 or biological sons and daughters, stepchildren, or
21 grandchild, the entire amount of property, interest in
22 property, and income.

23 Sec. _____. Section 450.9, subsections 2 and 3, Code
24 1995, are amended by striking the subsections.

25 Sec. _____. Section 450.10, subsection 1, unnumbered
26 paragraph 1, Code 1995, is amended to read as follows:

27 When the property, interest, or income passes to
28 ~~the father or mother, or to a child or a lineal~~
29 ~~descendant of the decedent, grantor, donor, or vendor,~~
30 ~~including a legally adopted child or biological child~~
31 ~~entitled to inherit under the laws of this state not~~
32 ~~included in subsection 7~~, the tax imposed shall be on
33 the individual share so passing in excess of the
34 exemptions allowed as follows:

35 Sec. _____. Section 450.10, subsection 2, unnumbered
36 paragraph 1, Code 1995, is amended to read as follows:

37 When the property or any interest therein in
38 property, or income therefrom from property taxable
39 under the provisions of this chapter passes to the
40 brother or sister, son-in-law, or daughter-in-law, or
41 step-children, the rate of tax imposed on the
42 individual share so passing shall be as follows:

43 Sec. _____. Section 450.10, subsection 7, Code 1995,
44 is amended to read as follows:

45 7. Property, interest in property, or income
46 passing to the surviving spouse, father or mother, son
47 or daughter, including legally adopted sons and
48 daughters or biological sons and daughters, stepchild,
49 or grandchild, is not taxable under this section."

By ANDY MCKEAN
RICHARD F. DRAKE
MAGGIE TINSMAN
O. GENE MADDOX
LYLE E. ZIEMAN
WAYNE D. BENNETT
SHELDON RITTMER
H. KAY HEDGE

JOANN DOUGLAS
JOHN W. JENSEN
NANCY BOETTGER
STEWART IVERSON, JR.
BRAD BANKS
ALLEN BORLAUG
WILMER RENSINK

S-5442 FILED MARCH 20, 1996

LOST
(p. 922)

SENATE FILE 2449

S-5443

- 1 Amend Senate File 2449 as follows:
- 2 1. Page 29, line 20, by striking the word
- 3 "thirty-five" and inserting the following: "forty".

By MERLIN E. BARTZ
ALLEN BORLAUG

S-5443 FILED MARCH 20, 1996

LOST
(p. 923)

SENATE FILE 2449

S-5444

- 1 Amend Senate File 2449 as follows:
- 2 1. Page 1, lines 3 and 4, by striking the words
- 3 and figure "paragraph a, Code 1995, is" and inserting
- 4 the following: "paragraphs a and d, Code 1995, are".
- 5 2. Page 1, by inserting after line 22 the
- 6 following:
- 7 "d. Notwithstanding the computation of the annual
- 8 inflation factor under paragraph "a", the annual
- 9 inflation factor is one hundred percent for any
- 10 calendar year in which the unobligated state general
- 11 fund balance on June 30 as certified by the director
- 12 of the department of management by October 10, is less
- 13 than sixty million dollars. Notwithstanding section
- 14 8.58, in determining the unobligated state general
- 15 fund balance on June 30, unobligated moneys in the
- 16 cash reserve fund and Iowa economic emergency fund on
- 17 June 30 shall be counted as part of the unobligated
- 18 state general fund balance for purposes of this
- 19 paragraph."

By H. KAY HEDGE

S-5444 FILED MARCH 20, 1996

LOST
(p. 923)

SENATE FILE 2449

S-5445

1 Amend Senate File 2449 as follows:

2 1. By striking page 20, line 31, through page 29,
3 line 9, and inserting the following:

4 "LIVESTOCK PRODUCTION TAX CREDIT

5 Sec. . . . NEW SECTION. 422.120 LIVESTOCK

6 PRODUCTION TAX CREDIT ALLOWED.

7 1. a. There is allowed a state tax credit for
8 livestock production operations located in the state.
9 The amount of the credit equals ten cents for each
10 corn equivalent consumed by the livestock in the
11 production operation as specified under this section.
12 The credit shall be refunded as provided in section
13 422.122.

14 b. The credit shall be available to an individual
15 or corporate taxpayer who owns livestock and who
16 receives, or accrues in the case of an accrual-basis
17 taxpayer, more than one half of the taxpayer's gross
18 income from farming or ranching operations during the
19 tax year. Gross income from farming or ranching is
20 the amount reported as gross income on schedule F, or
21 the equivalent schedule, of the taxpayer's income tax
22 return, the total gains from sales of breeding
23 livestock, and, if applicable, the taxpayer's
24 distributive share of income from farming or ranching
25 from a partnership, limited liability company,
26 subchapter S corporation, or an estate or trust. To
27 determine whether a taxpayer receives more than one-
28 half of gross income from farming or ranching, the
29 taxpayer's amount of gross income from farming or
30 ranching shall be divided by the taxpayer's total
31 gross income as defined in section 61 of the federal
32 Internal Revenue Code.

33 2. The amount of the credit per operation is
34 determined by adding together for each head of
35 livestock in the operation the product of ten cents
36 times the number of corn equivalents consumed by that
37 head of livestock. The amount of livestock production
38 credit per operation per tax year shall not exceed
39 three thousand dollars and the amount of livestock
40 production credit per taxpayer per tax year shall not
41 exceed three thousand dollars.

42 The maximum amount of corn equivalents for a head
43 of livestock in a production operation is the
44 following:

| | |
|------------------------------|-------------------|
| 45 a. Hog operations: | Corn equivalents: |
| 46 (1) Farrow to finish | 13.0 |
| 47 (2) Farrow to feeder pig | 2.6 |
| 48 (3) Finishing feeder pigs | 10.4 |
| 49 b. Poultry operations: | |
| 50 (1) Layers | 0.88 |

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| | | | |
|----|-----|-------------------|-------|
| 1 | (2) | Turkeys | 1.5 |
| 2 | (3) | Broilers | 0.15 |
| 3 | c. | Beef operations: | |
| 4 | (1) | Cow-calf | 111.5 |
| 5 | (2) | Stocker | 41.5 |
| 6 | (3) | Feedlot | 75.0 |
| 7 | (4) | Dairy | 350.0 |
| 8 | d. | Sheep operations: | |
| 9 | (1) | Ewe flock | 20.5 |
| 10 | (2) | Feedlot | 4.1 |

11 3. If the livestock operation is carried on partly
 12 within and partly without the state, the portion of
 13 the operation attributable to this state shall be
 14 determined pursuant to rules adopted by the
 15 department. The department may adjust the allocation
 16 upon request of the taxpayer in order to reflect the
 17 actual livestock operation carried on within this
 18 state.

19 4. An individual may claim the livestock
 20 production tax credit allowed a partnership, limited
 21 liability company, subchapter S corporation, or estate
 22 or trust electing to have the income taxed directly to
 23 the individual. The amount claimed by the individual
 24 shall be based upon the pro rata share of the
 25 individual's earning of the partnership, limited
 26 liability company, subchapter S corporation, or estate
 27 or trust.

28 5. A fraudulent claim for a credit refund under
 29 this division shall cause the forfeiture of any right
 30 or interest to a tax credit refund in subsequent tax
 31 years under this division.

32 Sec. ____ . NEW SECTION. 422.121 APPROPRIATION.

33 There is appropriated annually from the general
 34 fund of the state ten million dollars to refund the
 35 credits allowed under this division.

36 Sec. ____ . NEW SECTION. 422.122 REFUND OF
 37 LIVESTOCK PRODUCTION CREDIT CLAIMS.

38 1. For the tax year the total amount of livestock
 39 production credit refund claims that shall be paid
 40 shall not exceed ten million dollars. If the total
 41 dollar amount of the refund claims exceeds that
 42 amount, each claim shall be paid an amount equal to
 43 ten million dollars divided by the total number of
 44 claims, not to exceed the amount of the taxpayer's
 45 claim. Remaining funds shall be prorated among those
 46 claims not paid in full in the proportion that each
 47 such claim bears to the total amount of such claims
 48 not paid in full.

49 2. In the case where refund claims are not paid in
 50 full, the amount of the refund to which the taxpayer

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1 is entitled is the amount computed in subsection 1,
2 and paid to the taxpayer, and the taxpayer is not
3 entitled to any unpaid portion of a claim and is not
4 entitled to carry forward or backward to another tax
5 year any unpaid portion of a claim. A taxpayer shall
6 not use a refund as an estimated payment for the
7 succeeding tax year.

8 3. A taxpayer must file a claim for refund within
9 ten months from the close of the taxpayer's tax year.
10 An extension for filing shall not be allowed. The
11 department shall determine by February 28 of the
12 calendar year following the calendar year in which the
13 claims were filed if the total amount of claims for
14 refund exceeds ten million dollars for the tax year.
15 If the claim is not payable on February 28 because the
16 taxpayer is a fiscal year filer, the claim shall be
17 considered as a claim filed for the following tax
18 year.

19 4. A claim for refund shall be made on claim forms
20 to be made available by the department. In order for
21 a taxpayer to have a valid refund claim, the taxpayer
22 must supply legible copies of documents the director
23 deems necessary to verify the amount of the refund.

24 Sec. _____. This division of this Act applies
25 retroactively to January 1, 1996, for tax years
26 beginning on or after that date."

27 2. Title page, line 10, by striking the words
28 "family farm animal feeding" and inserting the
29 following: "livestock production".

By WAYNE D. BENNETT

S-5445 FILED MARCH 20, 1996
RULED OUT OF ORDER

(P. 922)

SENATE FILE 2449

S-5416

- 1 Amend Senate File 2449 as follows:
- 2 1. Page 6, line 20, by striking the word and
3 figure "subsection 1,".
- 4 2. Page 6, by inserting after line 28 the
5 following:
- 6 "2. If the amount appropriated under subsection 17
7 ~~as limited by section 8-59~~, plus any supplemental
8 appropriation made for purposes of this section for a
9 fiscal year is insufficient to pay all claims in full,
10 the director shall pay, in full, all claims to be paid
11 during the fiscal year for reimbursement of rent
12 constituting property taxes paid or if moneys are
13 insufficient to pay all such claims on a pro rata
14 basis. If the amount of claims for credit for
15 property taxes due to be paid during the fiscal year
16 exceed the amount remaining after payment to renters,
17 the director of revenue and finance shall prorate the
18 payments to the counties for the property tax credit.
19 In order for the director to carry out the
20 requirements of this subsection, notwithstanding any
21 provision to the contrary in this division, claims for
22 reimbursement for rent constituting property taxes
23 paid filed before May 1 of the fiscal year shall be
24 eligible to be paid in full during the fiscal year and
25 those claims filed on or after May 1 of the fiscal
26 year shall be eligible to be paid during the following
27 fiscal year and the director is not required to make
28 payments to counties for the property tax credit
29 before June 15 of the fiscal year."
- 30 2. Page 7, line 17, by striking the words "in
31 full" and inserting the following: "in full".
- 32 3. Page 28, line 27, by striking the word
33 "assessing authority" and inserting the following:
34 "county treasurer".
- 35 4. Page 28, line 29, by striking the words
36 "assessing authorities" and inserting the following:
37 "county treasurers".
- 38 5. Page 28, line 34, by striking the words
39 "assessing authorities" and inserting the following:
40 "county treasurers".

By WILLIAM D. PALMER

S-5416 FILED MARCH 19, 1996

adapted 3/20/96

(p. 921) (p. 923)
motion to R/c 3/20/96
motion to R/c - lost 3/20/96 (p. 924)

SENATE FILE 2449

S-5447

1 Amend Senate File 2449 as follows:

2 1. By striking everything after the enacting
3 clause and inserting the following:

4 "DIVISION I

5 INCOME TAX INDEXATION

6 Section 1. Section 422.4, subsection 1, paragraphs
7 a and d, Code 1995, are amended to read as follows:

8 a. "Annual inflation factor" means an index,
9 expressed as a percentage, determined by the
10 department by October 15 of the calendar year
11 preceding the calendar year for which the factor is
12 determined, which reflects the purchasing power of the
13 dollar as a result of inflation during the fiscal year
14 ending in the calendar year preceding the calendar
15 year for which the factor is determined. In
16 determining the annual inflation factor, the
17 department shall use the annual percent change, but
18 not less than zero percent, in the ~~implicit-price~~
19 ~~deflator-for-the-gross-national-product~~ gross domestic
20 product price deflator computed for the second quarter
21 of the calendar year by the bureau of economic
22 analysis of the United States department of commerce
23 and shall add ~~one-half~~ all of that percent change to
24 one hundred percent. The annual inflation factor and
25 the cumulative inflation factor shall each be
26 expressed as a percentage rounded to the nearest one-
27 tenth of one percent. The annual inflation factor
28 shall not be less than one hundred percent.

29 d. Notwithstanding the computation of the annual
30 inflation factor under paragraph "a", the annual
31 inflation factor is one hundred percent for any
32 calendar year in which the unobligated state general
33 fund balance on June 30 as certified by the director
34 of the department of management by October 10, is less
35 than sixty million dollars. Notwithstanding section
36 8.58, in determining the unobligated state general
37 fund balance on June 30, unobligated moneys in the
38 cash reserve fund and Iowa economic emergency fund on
39 June 30 shall be counted as part of the unobligated
40 state general fund balance for purposes of this
41 paragraph.

42 Sec. 2. Section 422.4, subsection 2, paragraph a,
43 Code 1995, is amended to read as follows:

44 a. "Annual standard deduction factor" means an
45 index, expressed as a percentage, determined by the
46 department by October 15 of the calendar year
47 preceding the calendar year for which the factor is
48 determined, which reflects the purchasing power of the
49 dollar as a result of inflation during the fiscal year
50 ending in the calendar year preceding the calendar

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1 year for which the factor is determined. In
2 determining the annual standard deduction factor, the
3 department shall use the annual percent change, but
4 not less than zero percent, in the ~~implicit-price~~
5 ~~deflator-for-the-gross-national-product~~ gross domestic
6 product price deflator computed for the second quarter
7 of the calendar year by the bureau of economic
8 analysis of the United States department of commerce
9 and shall add ~~one-half~~ all of that percent change to
10 one hundred percent. The annual standard deduction
11 factor and the cumulative standard deduction factor
12 shall each be expressed as a percentage rounded to the
13 nearest one-tenth of one percent. The annual standard
14 deduction factor shall not be less than one hundred
15 percent.

16 Sec. 3. This division of this Act, being deemed of
17 immediate importance, takes effect upon enactment and
18 applies to the computation of the annual inflation
19 factor and annual standard deduction factor for
20 calendar years beginning on or after January 1, 1996.
21 The department of revenue and finance shall adjust the
22 annual inflation factor and annual standard deduction
23 factor previously computed for the 1996 calendar year
24 to reflect the change made in the computation of those
25 factors in this Act.

DIVISION II

INHERITANCE TAXATION

26
27
28 Sec. 4. Section 450.7, subsection 1, unnumbered
29 paragraph 1, Code Supplement 1995, is amended to read
30 as follows:

31 Except for the share of the estate passing to the
32 surviving spouse, father or mother, each son and
33 daughter, including legally adopted sons and daughters
34 or biological sons and daughters, stepchildren, and
35 grandchildren, the tax is a charge against and a lien
36 upon the estate subject to tax under this chapter, and
37 all property of the estate or owned by the decedent
38 from the death of the decedent until paid, subject to
39 the following limitation:

40 Sec. 5. Section 450.9, subsection 1, Code 1995, is
41 amended to read as follows:

42 1. Surviving spouse, father or mother, son or
43 daughter, including legally adopted sons and daughters
44 or biological sons and daughters, stepchildren, or
45 grandchild, the entire amount of property, interest in
46 property, and income.

47 Sec. 6. Section 450.9, subsections 2 and 3, Code
48 1995, are amended by striking the subsections.

49 Sec. 7. Section 450.10, subsection 1, unnumbered
50 paragraph 1, Code 1995, is amended to read as follows:

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1 When the property, interest, or income passes to
2 ~~the father or mother, or to a child or a~~ lineal
3 descendant of the decedent, grantor, donor, or vendor,
4 ~~including a legally adopted child or biological child~~
5 ~~entitled to inherit under the laws of this state~~ not
6 included in subsection 7, the tax imposed shall be on
7 the individual share so passing in excess of the
8 exemptions allowed as follows:

9 Sec. 8. Section 450.10, subsection 2, unnumbered
10 paragraph 1, Code 1995, is amended to read as follows:

11 When the property or any interest therein in
12 property, or income therefrom from property taxable
13 under the provisions of this chapter passes to the
14 brother or sister, son-in-law, or daughter-in-law, or
15 ~~step-children~~, the rate of tax imposed on the
16 individual share so passing shall be as follows:

17 Sec. 9. Section 450.10, subsection 7, Code 1995,
18 is amended to read as follows:

19 7. Property, interest in property, or income
20 passing to the surviving spouse, father or mother, son
21 or daughter, including legally adopted sons and
22 daughters or biological sons and daughters, stepchild,
23 or grandchild, is not taxable under this section.

24 Sec. 10. This division of this Act applies to
25 estates of decedents dying on or after July 1, 1996.

DIVISION III

SCHOOL PROPERTY TAX

27
28 Sec. 11. Section 257.3, subsection 1, unnumbered
29 paragraph 1, Code Supplement 1995, is amended to read
30 as follows:

31 ~~Except as provided in subsections 2 and 3, a~~ A
32 school district shall cause to be levied each year,
33 for the school general fund, a foundation property tax
34 equal to ~~five~~ four dollars and ~~forty~~ fifteen cents per
35 thousand dollars of assessed valuation on all taxable
36 property in the district. The county auditor shall
37 spread the foundation levy over all taxable property
38 in the district.

39 Sec. 12. Section 257.3, subsections 2 and 3, Code
40 Supplement 1995, are amended by striking the
41 subsections.

42 Sec. 13. Section 257.3, subsection 4, Code
43 Supplement 1995, is amended to read as follows:

44 4. RAILWAY CORPORATIONS. For purposes of section
45 257.1, the "amount per pupil of foundation property
46 tax" does not include the tax levied under subsection
47 ~~17-27-or-3~~ on the property of a railway corporation,
48 or on its trustee if the corporation has been declared
49 bankrupt or is in bankruptcy proceedings.

50 Sec. 14. Section 275.55, unnumbered paragraph 4,

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1 Code 1995, is amended by striking the unnumbered
2 paragraph.

3 Sec. 15. Section 425A.3, subsection 1, Code 1995,
4 is amended to read as follows:

5 1. The family farm tax credit fund shall be
6 apportioned each year in the manner provided in this
7 chapter so as to give a credit against the tax on each
8 eligible tract of agricultural land within the several
9 school districts of the state in which the levy for
10 the general school fund exceeds five four dollars and
11 forty fifteen cents per thousand dollars of assessed
12 value. The amount of the credit on each eligible
13 tract of agricultural land shall be the amount the tax
14 levied for the general school fund exceeds the amount
15 of tax which would be levied on each eligible tract of
16 agricultural land were the levy for the general school
17 fund five four dollars and forty fifteen cents per
18 thousand dollars of assessed value for the previous
19 year. However, in the case of a deficiency in the
20 family farm tax credit fund to pay the credits in
21 full, the credit on each eligible tract of
22 agricultural land in the state shall be proportionate
23 and applied as provided in this chapter.

24 Sec. 16. Section 425A.5, Code 1995, is amended to
25 read as follows:

26 425A.5 COMPUTATION BY COUNTY AUDITOR.

27 The family farm tax credit allowed each year shall
28 be computed as follows: On or before March 1, the
29 county auditor shall list by school districts all
30 tracts of agricultural land which are entitled to
31 credit, the taxable value for the previous year, the
32 budget from each school district for the previous
33 year, and the tax rate determined for the general fund
34 of the school district in the manner prescribed in
35 section 444.3 for the previous year, and if the tax
36 rate is in excess of five four dollars and forty
37 fifteen cents per thousand dollars of assessed value,
38 the auditor shall multiply the tax levy which is in
39 excess of five four dollars and forty fifteen cents
40 per thousand dollars of assessed value by the total
41 taxable value of the agricultural land entitled to
42 credit in the school district, and on or before March
43 1, certify the total amount of credit and the total
44 number of acres entitled to the credit to the
45 department of revenue and finance.

46 Sec. 17. Section 426.3, Code 1995, is amended to
47 read as follows:

48 426.3 WHERE CREDIT GIVEN.

49 The agricultural land credit fund shall be
50 apportioned each year in the manner hereinafter

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1 provided in this chapter so as to give a credit
2 against the tax on each tract of agricultural lands
3 within the several school districts of the state in
4 which the levy for the general school fund exceeds
5 five four dollars and forty fifteen cents per thousand
6 dollars of assessed value; the amount of such credit
7 on each tract of such lands shall be the amount the
8 tax levied for the general school fund exceeds the
9 amount of tax which would be levied on said the tract
10 of such lands were the levy for the general school
11 fund five four dollars and forty fifteen cents per
12 thousand dollars of assessed value for the previous
13 year, except in the case of a deficiency in the
14 agricultural land credits fund to pay said credits in
15 full, in which case the credit on each eligible tract
16 of such lands in the state shall be proportionate and
17 shall be applied as hereinafter provided in this
18 chapter.

19 Sec. 18. Section 426.6, unnumbered paragraph 1,
20 Code 1995, is amended to read as follows:

21 The agricultural land tax credit allowed each year
22 shall be computed as follows: On or before the first
23 of June the county auditor shall list by school
24 districts all tracts of agricultural lands which they
25 are entitled to credit, together with the taxable
26 value for the previous year, together with the budget
27 from each school district for the previous year, and
28 the tax rate determined for the general fund of the
29 district in the manner prescribed in section 444.3 for
30 the previous year, and if such the tax rate is in
31 excess of five four dollars and forty fifteen cents
32 per thousand dollars of assessed value, the auditor
33 shall multiply the tax levy which is in excess of five
34 four dollars and forty fifteen cents per thousand
35 dollars of assessed value by the total taxable value
36 of the agricultural lands entitled to credit in the
37 district, and on or before the first of June certify
38 the amount to the department of revenue and finance.

39 Sec. 19.

40 1. Sections 11 through 14 of this division of this
41 Act, being deemed of immediate importance, take effect
42 upon enactment, and apply to the computation of school
43 foundation property taxes payable during school budget
44 years beginning on or after July 1, 1996.

45 2. Sections 15 through 18 of this division of this
46 Act take effect January 1, 1997, and apply to the
47 computation of family farm tax credits and
48 agricultural land tax credits granted for property
49 taxes payable in school budget years beginning on or
50 after July 1, 1997."

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1 2. Title page, by striking lines 1 through 13 and
 2 inserting the following: "An Act relating to taxation
 3 within the state by changing the computation of the
 4 inflation factors for the tax brackets and standard
 5 deduction of the state individual income tax,
 6 exemptions from the state inheritance tax, and
 7 reducing the school district uniform levy for purposes
 8 of providing tax relief and providing effective and
 9 retroactive and other applicability date provisions."

By WAYNE D. BENNETT

JIM LIND

MERLIN E. BARTZ

O. GENE MADDOX

STEWART IVERSON, JR.

DERRYL MCLAREN

S-5447 FILED MARCH 20, 1996

RULED OUT OF ORDER (P. 123)

SENATE FILE 2449

S-5449

1 Amend Senate File 2449 as follows:

2 1. Page 25, by inserting after line 25 the
 3 following:

4 "____. The fact that the family farm animal feeding
 5 operation or the person who owns the operation has
 6 received assistance, monetary or otherwise, from the
 7 authority shall not prevent the operation from being
 8 eligible for assistance under programs available under
 9 this section."

By MERLIN E. BARTZ

PATTY JUDGE

S-5449 FILED MARCH 20, 1996

ADOPTED

(P. 924)

SENATE FILE 2449

S-5456

1 Amend Senate File 2449 as follows:

2 1. Page 28, by inserting after line 34 the
 3 following:

4 "____. If the county treasurer has received a
 5 percentage amount of the amount certified to the
 6 agricultural development authority, the county
 7 treasurer shall for the following fiscal year grant
 8 each exemption from the previous fiscal year an
 9 exemption equal to the percentage amount which the
 10 county treasurer was reimbursed for that exemption
 11 unless the reimbursement for that exemption is fully
 12 funded by February 1 preceding the next fiscal year."

By SHELDON RITTMER

S-5456 FILED MARCH 20, 1996

ADOPTED (P. 924)

SENATE FILE 2449

S-5454

1 Amend Senate File 2449 as follows:

2 1. Page 2, by striking lines 20 through 30 and
3 inserting the following:

4 "Sec. ____ . Section 450.7, subsection 1, unnumbered
5 paragraph 1, Code Supplement 1995, is amended to read
6 as follows:

7 Except for the share of the estate passing to the
8 surviving spouse, father or mother, each son and
9 daughter, including legally adopted sons and daughters
10 or biological sons and daughters, stepchildren, and
11 grandchildren, the tax is a charge against and a lien
12 upon the estate subject to tax under this chapter, and
13 all property of the estate or owned by the decedent
14 from the death of the decedent until paid, subject to
15 the following limitation:

16 Sec. ____ . Section 450.9, subsection 1, Code 1995,
17 is amended to read as follows:

18 1. Surviving spouse, father or mother, son or
19 daughter, including legally adopted sons and daughters
20 or biological sons and daughters, stepchildren, or
21 grandchild, the entire amount of property, interest in
22 property, and income.

23 Sec. ____ . Section 450.9, subsections 2 and 3, Code
24 1995, are amended by striking the subsections.

25 Sec. ____ . Section 450.10, subsection 1, unnumbered
26 paragraph 1, Code 1995, is amended to read as follows:

27 ~~When the property, interest, or income passes to~~
28 ~~the-father-or-mother,-or-to-a-child-or a lineal~~
29 ~~descendant of the decedent, grantor, donor, or vendor,~~
30 ~~including-a-legally-adopted-child-or-biological-child~~
31 ~~entitled-to-inherit-under-the-laws-of-this-state not~~
32 ~~included in subsection 7, the tax imposed shall be on~~
33 ~~the individual share so passing in excess of the~~
34 ~~exemptions allowed as follows:~~

35 Sec. ____ . Section 450.10, subsection 2, unnumbered
36 paragraph 1, Code 1995, is amended to read as follows:

37 ~~When the property or any interest therein in~~
38 ~~property, or income therefrom from property taxable~~
39 ~~under the provisions of this chapter passes to the~~
40 ~~brother or sister, son-in-law, or daughter-in-law, or~~
41 ~~step-children, the rate of tax imposed on the~~
42 ~~individual share so passing shall be as follows:~~

43 Sec. ____ . Section 450.10, subsection 7, Code 1995,
44 is amended to read as follows:

45 7. Property, interest in property, or income
46 passing to the surviving spouse, father or mother, son
47 or daughter, including legally adopted sons and
48 daughters or biological sons and daughters, stepchild,
49 or grandchild, is not taxable under this section."

50 2. By striking page 7, line 35, through page 15,

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1 line 18, and inserting the following:

2 "Sec. _____. Section 422.5, subsection 1, paragraph
3 j, Code 1995, is amended by adding the following new
4 unnumbered paragraph:

5 NEW UNNUMBERED PARAGRAPH. The tax imposed upon the
6 taxable income of a resident shareholder in a
7 corporation which has in effect for the tax year an
8 election under subchapter S of the Internal Revenue
9 Code and carries on business within and without the
10 state shall be computed by reducing the amount
11 determined pursuant to paragraphs "a" through "i" by
12 the amounts of nonrefundable credits under this
13 division and by multiplying this resulting amount by a
14 fraction of which the resident's net income allocated
15 to Iowa, as determined in section 422.8, subsection 2,
16 paragraph "b", is the numerator and the resident's
17 total net income computed under section 422.7 is the
18 denominator. This paragraph also applies to
19 individuals who are residents of Iowa for less than
20 the entire tax year.

21 Sec. _____. Section 422.5, subsection 1, paragraph
22 k, unnumbered paragraph 4, Code 1995, is amended to
23 read as follows:

24 In the case of a resident, including a resident
25 estate or trust, the state's apportioned share of the
26 state alternative minimum tax is one hundred percent
27 of the state alternative minimum tax computed in this
28 subsection. In the case of a resident or part year
29 resident shareholder in a corporation which has in
30 effect for the tax year an election under subchapter S
31 of the Internal Revenue Code and carries on business
32 within and without the state, a nonresident, including
33 a nonresident estate or trust, or an individual,
34 estate, or trust that is domiciled in the state for
35 less than the entire tax year, the state's apportioned
36 share of the state alternative minimum tax is the
37 amount of tax computed under this subsection, reduced
38 by the applicable credits in sections 422.10 through
39 422.12 and this result multiplied by a fraction with a
40 numerator of the sum of state net income allocated to
41 Iowa as determined in section 422.8, subsection 2,
42 paragraph "a" or "b" as applicable, plus tax
43 preference items, adjustments, and losses under
44 subparagraph (1) attributable to Iowa and with a
45 denominator of the sum of total net income computed
46 under section 422.7 plus all tax preference items,
47 adjustments, and losses under subparagraph (1). In
48 computing this fraction, those items excludable under
49 subparagraph (1) shall not be used in computing the
50 tax preference items. Married taxpayers electing to

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1 file separate returns or separately on a combined
2 return must allocate the minimum tax computed in this
3 subsection in the proportion that each spouse's
4 respective preference items, adjustments, and losses
5 under subparagraph (1) bear to the combined preference
6 items, adjustments, and losses under subparagraph (1)
7 of both spouses.

8 Sec. _____. Section 422.8, subsection 2, Code 1995,
9 is amended to read as follows:

10 2. a. Nonresident's net income allocated to Iowa
11 is the net income, or portion thereof, which is
12 derived from a business, trade, profession, or
13 occupation carried on within this state or income from
14 any property, trust, estate, or other source within
15 Iowa. However, income derived from a business, trade,
16 profession, or occupation carried on within this state
17 and income from any property, trust, estate, or other
18 source within Iowa shall not include distributions
19 from pensions, including defined benefit or defined
20 contribution plans, annuities, individual retirement
21 accounts, and deferred compensation plans or any
22 earnings attributable thereto so long as the
23 distribution is directly related to an individual's
24 documented retirement and received while the
25 individual is a nonresident of this state. If a
26 business, trade, profession, or occupation is carried
27 on partly within and partly without the state, only
28 the portion of the net income which is fairly and
29 equitably attributable to that part of the business,
30 trade, profession, or occupation carried on within the
31 state is allocated to Iowa for purposes of section
32 422.5, subsection 1, paragraph "j", and section 422.13
33 and income from any property, trust, estate, or other
34 source partly within and partly without the state is
35 allocated to Iowa in the same manner, except that
36 annuities, interest on bank deposits and interest-
37 bearing obligations, and dividends are allocated to
38 Iowa only to the extent to which they are derived from
39 a business, trade, profession, or occupation carried
40 on within the state.

41 b. A resident's income allocable to Iowa is the
42 income determined under section 422.7 reduced by items
43 of income and expenses from a subchapter S corporation
44 which pass directly to the shareholders under
45 provisions of the Internal Revenue Code and increased
46 by the greatest of the following:

47 (1) The net income or loss of the corporation
48 which is fairly and equitably attributable to this
49 state under section 422.33, subsections 2 and 3.

50 (2) The taxpayer's pro rata share of an amount

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1 deemed distributed to shareholders which when added to
2 the salaries, wages, or other compensation for
3 services performed by all shareholders will equal ten
4 percent of the net income of the corporation computed
5 in accordance with section 422.35 and considering
6 items of income and expense which pass directly to the
7 shareholders under provisions of the Internal Revenue
8 Code before deduction of shareholder's salaries,
9 wages, or other compensation for services performed.

10 (3) Any cash or the value of any property
11 distributions made to the extent they are paid from
12 income upon which Iowa income tax has not been paid as
13 determined under rules of the director.

14 Sec. ____ . Section 422.8, Code 1995, is amended by
15 adding the following new subsection:

16 NEW SUBSECTION. 6. If the resident or part year
17 resident is a shareholder of a corporation which has
18 in effect an election under subchapter S of the
19 Internal Revenue Code, subsections 1 and 3 do not
20 apply to any income taxes paid to another state or
21 foreign country on the income from the corporation
22 which has in effect an election under subchapter S of
23 the Internal Revenue Code.

24 Sec. ____ . This division of this Act, being deemed
25 of immediate importance, takes effect upon enactment
26 and applies retroactively to January 1, 1996, for tax
27 years beginning on or after that date."

28 3. By striking page 20, line 30, through page 29,
29 line 9.

30 4. Page 29, line 20, by striking the word
31 "thirty-five" and inserting the following: "forty-
32 three".

33 5. Title page, lines 9 through 11 by striking the
34 words "establishing incentives for family farm animal
35 feeding operations and making an appropriation;".

By BRAD BANKS

S-5454 FILED MARCH 20, 1996

WITHDRAWN

(p. 923)

SENATE FILE 2449

S-5458

1 Amend Senate File 2449 as follows:

2 1. By striking page 7, line 35, through page 15,
3 line 18, and inserting the following:

4 "Sec. _____. Section 422.5, subsection 1, paragraph
5 j, Code 1995, is amended by adding the following new
6 unnumbered paragraph:

7 NEW UNNUMBERED PARAGRAPH. The tax imposed upon the
8 taxable income of a resident shareholder in a
9 corporation which has in effect for the tax year an
10 election under subchapter S of the Internal Revenue
11 Code and carries on business within and without the
12 state shall be computed by reducing the amount
13 determined pursuant to paragraphs "a" through "i" by
14 the amounts of nonrefundable credits under this
15 division and by multiplying this resulting amount by a
16 fraction of which the resident's net income allocated
17 to Iowa, as determined in section 422.8, subsection 2,
18 paragraph "b", is the numerator and the resident's
19 total net income computed under section 422.7 is the
20 denominator. This paragraph also applies to
21 individuals who are residents of Iowa for less than
22 the entire tax year.

23 Sec. _____. Section 422.5, subsection 1, paragraph
24 k, unnumbered paragraph 4, Code 1995, is amended to
25 read as follows:

26 In the case of a resident, including a resident
27 estate or trust, the state's apportioned share of the
28 state alternative minimum tax is one hundred percent
29 of the state alternative minimum tax computed in this
30 subsection. In the case of a resident or part year
31 resident shareholder in a corporation which has in
32 effect for the tax year an election under subchapter S
33 of the Internal Revenue Code and carries on business
34 within and without the state, a nonresident, including
35 a nonresident estate or trust, or an individual,
36 estate, or trust that is domiciled in the state for
37 less than the entire tax year, the state's apportioned
38 share of the state alternative minimum tax is the
39 amount of tax computed under this subsection, reduced
40 by the applicable credits in sections 422.10 through
41 422.12 and this result multiplied by a fraction with a
42 numerator of the sum of state net income allocated to
43 Iowa as determined in section 422.8, subsection 2,
44 paragraph "a" or "b" as applicable, plus tax
45 preference items, adjustments, and losses under
46 subparagraph (1) attributable to Iowa and with a
47 denominator of the sum of total net income computed
48 under section 422.7 plus all tax preference items,
49 adjustments, and losses under subparagraph (1). In
50 computing this fraction, those items excludable under

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Page 2

1 subparagraph (1) shall not be used in computing the
2 tax preference items. Married taxpayers electing to
3 file separate returns or separately on a combined
4 return must allocate the minimum tax computed in this
5 subsection in the proportion that each spouse's
6 respective preference items, adjustments, and losses
7 under subparagraph (1) bear to the combined preference
8 items, adjustments, and losses under subparagraph (1)
9 of both spouses.

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

12 2. a. Nonresident's net income allocated to Iowa
13 is the net income, or portion thereof, which is
14 derived from a business, trade, profession, or
15 occupation carried on within this state or income from
16 any property, trust, estate, or other source within
17 Iowa. However, income derived from a business, trade,
18 profession, or occupation carried on within this state
19 and income from any property, trust, estate, or other
20 source within Iowa shall not include distributions
21 from pensions, including defined benefit or defined
22 contribution plans, annuities, individual retirement
23 accounts, and deferred compensation plans or any
24 earnings attributable thereto so long as the
25 distribution is directly related to an individual's
26 documented retirement and received while the
27 individual is a nonresident of this state. If a
28 business, trade, profession, or occupation is carried
29 on partly within and partly without the state, only
30 the portion of the net income which is fairly and
31 equitably attributable to that part of the business,
32 trade, profession, or occupation carried on within the
33 state is allocated to Iowa for purposes of section
34 422.5, subsection 1, paragraph "j", and section 422.13
35 and income from any property, trust, estate, or other
36 source partly within and partly without the state is
37 allocated to Iowa in the same manner, except that
38 annuities, interest on bank deposits and interest-
39 bearing obligations, and dividends are allocated to
40 Iowa only to the extent to which they are derived from
41 a business, trade, profession, or occupation carried
42 on within the state.

43 b. A resident's income allocable to Iowa is the
44 income determined under section 422.7 reduced by items
45 of income and expenses from a subchapter S corporation
46 which pass directly to the shareholders under
47 provisions of the Internal Revenue Code and increased
48 by the greatest of the following:

49 (1) The net income or loss of the corporation
50 which is fairly and equitably attributable to this

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1 state under section 422.33, subsections 2 and 3.
 2 (2) The taxpayer's pro rata share of an amount
 3 deemed distributed to shareholders which when added to
 4 the salaries, wages, or other compensation for
 5 services performed by all shareholders will equal ten
 6 percent of the net income of the corporation computed
 7 in accordance with section 422.35 and considering
 8 items of income and expense which pass directly to the
 9 shareholders under provisions of the Internal Revenue
 10 Code before deduction of shareholder's salaries,
 11 wages, or other compensation for services performed.

12 (3) Any cash or the value of any property
 13 distributions made to the extent they are paid from
 14 income upon which Iowa income tax has not been paid as
 15 determined under rules of the director.

16 Sec. ____ . Section 422.8, Code 1995, is amended by
 17 adding the following new subsection:

18 NEW SUBSECTION. 6. If the resident or part year
 19 resident is a shareholder of a corporation which has
 20 in effect an election under subchapter S of the
 21 Internal Revenue Code, subsections 1 and 3 do not
 22 apply to any income taxes paid to another state or
 23 foreign country on the income from the corporation
 24 which has in effect an election under subchapter S of
 25 the Internal Revenue Code.

26 Sec. ____ . This division of this Act, being deemed
 27 of immediate importance, takes effect upon enactment
 28 and applies retroactively to January 1, 1996, for tax
 29 years beginning on or after that date."

By DONALD B. REDFERN

WILMER RENSINK

MAGGIE TINSMAN

ALLEN BORLAUG

ANDY MCKEAN

WAYNE D. BENNETT

BRAD BANKS

S-5458 FILED MARCH 20, 1996

LOST

(P. 925)

SENATE FILE 2449

S-5461

1 Amend Senate File 2449 as follows:
 2 1. Page 3, line 24, by inserting after the word
 3 "chapter." the following: "The increase in
 4 appropriation to the homestead credit fund from the
 5 amount appropriated to the fund for the fiscal year
 6 beginning July 1, 1995, shall be used by each county
 7 treasurer to grant an additional credit above the
 8 regular homestead credit of four thousand eight
 9 hundred fifty dollars. The department of revenue and
 10 finance shall compute for each county a uniform amount
 11 of credit which will be in excess of the regular four
 12 thousand eight hundred fifty dollars."

By JIM LIND

S-5461 FILED MARCH 20, 1996

LOST

(P. 925)

H. 3/21/96 W. & M.
H. 3/22/96 Do Pass

SENATE FILE **2449**
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 2343)

(AS AMENDED AND PASSED BY THE SENATE MARCH 20, 1996)

_____ - New Language by the Senate

* - Language Stricken by the Senate

Passed Senate, Date ^(P. 1126) 3-28-96 Passed House, Date ^(P. 1053) 3/27/96

Vote: Ayes 30 Nays 19 Vote: Ayes 95 Nays 4

Approved Item veto 5/29/96
Repassed 5-1-96
Vote 43-6
Repassed 5/1/96
Vote 97-0 (P. 2165)

A BILL FOR

1 An Act changing the computation of the inflation factors for the
2 tax brackets and standard deduction under the individual
3 income tax; changing the computation of taxable income of
4 certain subchapter S corporations and their shareholders;
5 increasing inheritance tax exemptions for certain relatives;
6 increasing the amount of the appropriations for homestead
7 credit, military service credit, and low-income credit and
8 reimbursement claims; providing income tax credits for
9 investing in a qualified venture capital company; establishing
10 incentives for family farm animal feeding operations and
11 making an appropriation; adjusting the funding for the family
12 farm and agricultural land tax credits. establishing a study
13 of the property tax system as the sole or major source of
14 local funding and of alternate sources of funding for school,
15 city, and county services, the repayment of bonds or other
16 debt obligations, and capital improvements; and providing
17 effective and applicability date provisions.

18 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA: *4-9-96*
19 *Senate Conf. Comm.* *House Conf. Comm.*
20 *4-8-96 (P. 1266)* *Halverson* *Burns*
21 *Palmer* *Larson* *Myer*
Husak
Vilsock
Bennett
Munro
SF 2449
mg/cc/26

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DIVISION I

INCOME TAX INDEXATION

Section 1. Section 422.4, subsection 1, paragraph a, Code 1995, is amended to read as follows:

a. "Annual inflation factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual inflation factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit-price deflator-for-the-gross-national-product~~ gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add ~~one-half~~ all of that percent change to one hundred percent. The annual inflation factor and the cumulative inflation factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual inflation factor shall not be less than one hundred percent.

Sec. 2. Section 422.4, subsection 2, paragraph a, Code 1995, is amended to read as follows:

a. "Annual standard deduction factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual standard deduction factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit-price-deflator-for-the~~ gross-national-product gross domestic product price deflator

1 computed for the second quarter of the calendar year by the
2 bureau of economic analysis of the United States department of
3 commerce and shall add ~~one-half~~ all of that percent change to
4 one hundred percent. The annual standard deduction factor and
5 the cumulative standard deduction factor shall each be
6 expressed as a percentage rounded to the nearest one-tenth of
7 one percent. The annual standard deduction factor shall not
8 be less than one hundred percent.

9 Sec. 3. This division of this Act, being deemed of
10 immediate importance, takes effect upon enactment and applies
11 to the computation of the annual inflation factor and annual
12 standard deduction factor for calendar years beginning on or
13 after January 1, 1996. The department of revenue and finance
14 shall adjust the annual inflation factor and annual standard
15 deduction factor previously computed for the 1996 calendar
16 year to reflect the change made in the computation of those
17 factors in this Act.

18 DIVISION II

19 INHERITANCE TAX

20 Sec. 4. Section 450.9, subsections 2 and 3, Code 1995, are
21 amended to read as follows:

22 2. Each son and daughter, including legally adopted sons
23 and daughters, or stepsons and stepdaughters, or biological
24 sons and daughters entitled to inherit under the law of this
25 state, fifty two hundred thousand dollars.

26 3. Father or mother, fifteen fifty thousand dollars.

27 Sec. 5. Section 450.9, Code 1995, is amended by adding the
28 following new subsection after subsection 3:

29 NEW SUBSECTION. 3A. Each grandchild, fifty thousand
30 dollars.

31 Sec. 6. This division of this Act takes effect July 1
32 following enactment of the division and applies to the estates
33 of decedents dying on or after that date.

34 DIVISION III

35 HOMESTEAD, MILITARY, AND LOW-INCOME

1 TAX CREDIT AND REIMBURSEMENT

2 Sec. 7. Section 8.59, Code 1995, is amended to read as
3 follows:

4 8.59 APPROPRIATIONS FREEZE.

5 Notwithstanding contrary provisions of the Code, the
6 amounts appropriated under the applicable sections of the Code
7 for fiscal years commencing on or after July 1, 1993, are
8 limited to those amounts expended under those sections for the
9 fiscal year commencing July 1, 1992. If an applicable section
10 appropriates moneys to be distributed to different recipients
11 and the operation of this section reduces the total amount to
12 be distributed under the applicable section, the moneys shall
13 be prorated among the recipients. As used in this section,
14 "applicable sections" means the following sections: 53.50,
15 229.35, 230.8, 230.11, 405A.8, 411.20, ~~425.17-425.397-426A.17~~
16 663.44, and 822.5.

17 Sec. 8. Section 425.1, subsection 1, Code 1995, is amended
18 to read as follows:

19 1. A homestead credit fund is created. There is
20 appropriated annually from the general fund of the state to
21 the department of revenue and finance to be credited to the
22 homestead credit fund, ~~an amount sufficient~~ the sum of one
23 hundred fourteen million four hundred thousand dollars to
24 implement this chapter.

25 The director of revenue and finance shall issue warrants on
26 the homestead credit fund payable to the county treasurers of
27 the several counties of the state under this chapter.

28 Sec. 9. Section 425.17, subsection 2, paragraph b, Code
29 1995, is amended to read as follows:

30 b. A person filing a claim for ~~credit-or~~ reimbursement
31 under this division who has attained the age of twenty-three
32 years on or before December 31 of the base year or was a head
33 of household on December 31 of the base year, as defined in
34 the Internal Revenue Code, but has not attained the age or
35 disability status described in paragraph "a", and was

1 domiciled in this state during the entire base year, and is
2 domiciled in this state at the time the claim is filed or at
3 the time of the person's death in the case of a claim filed by
4 the executor or administrator of the claimant's estate, and
5 was not claimed as a dependent on any other person's tax
6 return for the base year.

7 Sec. 10. Section 425.17, subsection 2, unnumbered
8 paragraph 2, Code 1995, is amended to read as follows:

9 "Claimant" under paragraph "a" ~~or "b"~~ includes a vendee in
10 possession under a contract for deed and may include one or
11 more joint tenants or tenants in common. In the case of a
12 claim for rent constituting property taxes paid, the claimant
13 shall have rented the property during any part of the base
14 year. If a homestead is occupied by two or more persons, and
15 more than one person is able to qualify as a claimant, the
16 persons may determine among them who will be the claimant. If
17 they are unable to agree, the matter shall be referred to the
18 director of revenue and finance not later than June 1 of each
19 year and the director's decision is final.

20 Sec. 11. Section 425.23, subsection 1, paragraph b, Code
21 1995, is amended by striking the paragraph and inserting in
22 lieu thereof the following:

23 b. The reimbursement for a claimant described in section
24 425.17, subsection 2, paragraph "b", shall be determined as
25 follows:

| 26 27 If the household 28 income is: | Percent of rent constituting property taxes paid allowed as a reimbursement: |
|--|--|
| 29 \$ 0 - 9,999.99 | 50 |
| 30 10,000 - 13,999.99 | 42 |
| 31 14,000 - 17,999.99 | 35 |
| 32 18,000 - 20,999.99 | 25 |
| 33 21,000 - 23,999.99 | 17 |
| 34 24,000 - 26,999.99 | 12 |

35 Sec. 12. Section 425.23, subsection 3, paragraph a, Code

1 1995, is amended to read as follows:

2 a. A person who is eligible to file a claim for credit for
3 property taxes due and who has a household income of six
4 thousand dollars or less and who has an unpaid special
5 assessment levied against the homestead may file a claim with
6 the county treasurer that the claimant had a household income
7 of six thousand dollars or less and that an unpaid special
8 assessment is presently levied against the homestead. The
9 department shall provide to the respective treasurers the
10 forms necessary for the administration of this subsection.
11 The claim shall be filed not later than September 30 of each
12 year. Upon the filing of the claim, interest for late payment
13 shall not accrue against the amount of the unpaid special
14 assessment due and payable. The claim filed by the claimant
15 constitutes a claim for credit of an amount equal to the
16 actual amount due upon the unpaid special assessment, plus
17 interest, payable during the fiscal year for which the claim
18 is filed against the homestead of the claimant. However,
19 ~~where the claimant is an individual described in section~~
20 ~~425-177 subsection 2 paragraph "b" and the tentative credit~~
21 ~~is determined according to the schedule in section 425-237~~
22 ~~subsection 1 paragraph "b" subparagraph (2) the claim filed~~
23 ~~constitutes a claim for credit of an amount equal to one-half~~
24 ~~of the actual amount due and payable during the fiscal year.~~
25 The department of revenue and finance shall, upon the filing
26 of the claim with the department by the treasurer, pay that
27 amount of the unpaid special assessment during the current
28 fiscal year to the treasurer. The treasurer shall submit the
29 claims to the director of revenue and finance not later than
30 October 15 of each year. The director of revenue and finance
31 shall certify the amount of reimbursement due each county for
32 unpaid special assessment credits allowed under this
33 subsection. The amount of reimbursement due each county shall
34 be paid by the director of revenue and finance on October 20
35 of each year, drawn upon warrants payable to the respective

1 treasurer. There is appropriated annually from the general
 2 fund of the state to the department of revenue and finance an
 3 amount sufficient to carry out the provisions of this
 4 subsection. The treasurer shall credit any moneys received
 5 from the department against the amount of the unpaid special
 6 assessment due and payable on the homestead of the claimant.

7 Sec. 13. Section 425.24, Code 1995, is amended to read as
 8 follows:

9 425.24 MAXIMUM PROPERTY TAX FOR PURPOSE OF CREDIT OR
 10 REIMBURSEMENT.

11 In any case in which property taxes due or rent
 12 constituting property taxes paid for any household exceeds one
 13 thousand dollars or six hundred dollars in the case of a
 14 claimant described in section 425.17, subsection 2, paragraph
 15 "b", the amount of property taxes due or rent constituting
 16 property taxes paid shall be deemed to have been one thousand
 17 dollars or six hundred dollars in the case of a claimant
 18 described in section 425.17, subsection 2, paragraph "b", for
 19 purposes of this division.

* 20 Sec. 14. Section 425.39, Code 1995, is amended to read as
 21 follows:

22 1. The extraordinary property tax credit and reimbursement
 23 fund is created. There is appropriated annually from the
 24 general fund of the state to the department of revenue and
 25 finance to be credited to the extraordinary property tax
 26 credit and reimbursement fund, from funds not otherwise
 27 appropriated, ~~an amount sufficient~~ the sum of twelve million
 28 five hundred thousand dollars to implement this division.

29 2. If the amount appropriated under subsection 17-as
 30 limited-by-section-8-597, plus any supplemental appropriation
 31 made for purposes of this section for a fiscal year is
 32 insufficient to pay all claims in full, the director shall
 33 pay, in full, all claims to be paid during the fiscal year for
 34 reimbursement of rent constituting property taxes paid or if
 35 moneys are insufficient to pay all such claims on a pro rata

1 basis. If the amount of claims for credit for property taxes
2 due to be paid during the fiscal year exceed the amount
3 remaining after payment to renters, the director of revenue
4 and finance shall prorate the payments to the counties for the
5 property tax credit. In order for the director to carry out
6 the requirements of this subsection, notwithstanding any
7 provision to the contrary in this division, claims for
8 reimbursement for rent constituting property taxes paid filed
9 before May 1 of the fiscal year shall be eligible to be paid
10 in full during the fiscal year and those claims filed on or
11 after May 1 of the fiscal year shall be eligible to be paid
12 during the following fiscal year and the director is not
13 required to make payments to counties for the property tax
14 credit before June 15 of the fiscal year.

15 Sec. 15. Section 425.40, Code 1995, is amended to read as
16 follows:

17 425.40 LOW-INCOME FUND CREATED.

18 1. A low-income ~~tax-credit-and~~ rent reimbursement fund is
19 created. There is appropriated annually from the general fund
20 of the state to the low-income rent reimbursement fund the sum
21 of thirteen million five hundred thousand dollars to fund rent
22 reimbursements under this division.

23 2. If the amount appropriated under subsection 1 plus any
24 supplemental appropriation made for purposes of this section
25 for a fiscal year is insufficient to pay all claims in full,
26 the director shall pay ~~7-in-full, all-claims-to-be-paid-during~~
27 ~~the-fiscal-year-for-reimbursement-of-rent-constituting~~
28 ~~property-taxes-paid-or-if-moneys-are-insufficient-to-pay~~ all
29 such claims on a pro rata basis. ~~If-the-amount-of-claims-for~~
30 ~~credit-for-property-taxes-due-to-be-paid-during-the-fiscal~~
31 ~~year-exceed-the-amount-remaining-after-payment-to-renters, the~~
32 ~~director-of-revenue-and-finance-shall-prorate-the-payments-to~~
33 ~~the-counties-for-the-property-tax-credit.~~ In order for the
34 director to carry out the requirements of this subsection,
35 notwithstanding any provision to the contrary in this

1 division, claims for reimbursement for rent constituting
2 property taxes paid filed before May 1 of the fiscal year
3 shall be eligible to be paid ~~in-full~~ during the fiscal year
4 and those claims filed on or after May 1 of the fiscal year
5 shall be eligible to be paid during the following fiscal year
6 ~~and the director is not required to make payments to counties~~
7 ~~for the property tax credit before June 15 of the fiscal year.~~

8 Sec. 16. Section 426A.1, Code 1995, is amended to read as
9 follows:

10 426A.1 APPROPRIATION.

11 There is appropriated from the general fund of the state
12 the ~~amounts necessary~~ sum of two million eight hundred
13 thousand dollars to fund the credits provided under this
14 chapter.

15 Sec. 17. This division of this Act takes effect July 1,
16 1996, and applies to homestead, military service, and low-
17 income tax credit and rent reimbursement claims payable in
18 fiscal years beginning on or after July 1, 1996.

19 DIVISION IV

20 SUBCHAPTER S CORPORATIONS

21 Sec. 18. Section 422.4, Code 1995, is amended by adding
22 the following new subsection:

23 NEW SUBSECTION. 15A. "Subchapter S corporation" or "S
24 corporation" means a corporation for which a valid election
25 under section 1362(a) of the Internal Revenue Code is in
26 effect.

27 Sec. 19. Section 422.5, subsection 1, paragraph j, Code
28 1995, is amended to read as follows:

29 j. (1) The tax imposed upon the taxable income of a
30 nonresident shall be computed by reducing the amount
31 determined pursuant to paragraphs "a" through "i" by the
32 amounts of nonrefundable credits under this division and by
33 multiplying this resulting amount by a fraction of which the
34 nonresident's net income allocated to Iowa, as determined in
35 section 422.8, subsection 2, paragraph "a", is the numerator

1 and the nonresident's total net income computed under section
2 422.7 is the denominator. This provision also applies to
3 individuals who are residents of Iowa for less than the entire
4 tax year.

5 (2) The tax imposed upon the taxable income of a resident
6 shareholder in a subchapter S corporation which makes an
7 election pursuant to section 422.36, subsection 5, paragraph
8 "b", to be taxed as a regular corporation, shall be computed
9 by reducing the amount determined pursuant to paragraphs "a"
10 through "i" by the amounts of nonrefundable credits under this
11 division and by multiplying this resulting amount by a
12 fraction of which the resident's net income allocated to Iowa,
13 as determined in section 422.8, subsection 2, paragraph "b",
14 is the numerator and the resident's total net income as
15 computed under section 422.7 is the denominator. This
16 provision also applies to individuals who are residents of
17 Iowa for less than the entire tax year.

18 (a) In the case of a resident or part-year resident
19 shareholder in a subchapter S corporation which makes an
20 election under section 422.36, subsection 5, paragraph "b", to
21 be taxed as a regular corporation, a taxpayer must completely
22 fill out the return, determine the taxpayer's income tax as if
23 the taxpayer is not a resident shareholder in a corporation
24 which makes an election pursuant to section 422.36, subsection
25 5, paragraph "b", and pay the amount of tax which is owed.
26 The taxpayer shall then recompute the taxpayer's income tax
27 liability pursuant to this subparagraph on a special return.
28 This special return shall be filed with the regular return and
29 constitutes a claim for refund of the difference between the
30 amount of tax the taxpayer paid on the regular return and the
31 amount of tax determined on the special return. However, if
32 the amount of tax determined on the special return exceeds the
33 amount of tax paid on the regular return, the taxpayer shall
34 pay the additional amount of tax which is owed on the special
35 return.

1 (b) For any tax year, the aggregate amount of refund
2 claims that shall be paid pursuant to this subparagraph in
3 excess of revenue gains shall not exceed three million five
4 hundred thousand dollars. If, for a tax year, the aggregate
5 amount of refund claims filed pursuant to this subparagraph in
6 excess of revenue gains exceeds three million five hundred
7 thousand dollars, each claim for refund shall be paid on a pro
8 rata basis so that the aggregate amount of refund claims in
9 excess of revenue gains does not exceed three million five
10 hundred thousand dollars. For purposes of the calculation of
11 the three million five hundred thousand dollar limitation
12 provided by this subparagraph subdivision, the department
13 shall take into account all revenue gains as well as revenue
14 losses resulting from the application of the following
15 provisions, including, without limitation, revenue gains
16 arising when the tax calculated under this subparagraph is
17 greater, revenue gains resulting from the denial of tax
18 credits under section 422.8, subsection 6, revenue gains
19 resulting from the taxation of additional income under section
20 422.7, subsection 35, and revenue gains resulting from the
21 imposition of corporate income taxes on corporations making
22 the election specified in section 422.36, subsection 5,
23 paragraph "b". In the case where refund claims are not
24 allowed in full, the amount of the refund to which the
25 taxpayer is entitled under this subparagraph is the pro rata
26 amount that was paid and the taxpayer is not entitled to a
27 refund of the unpaid portion and is not entitled to carry that
28 amount forward or backward to another tax year. Taxpayers
29 shall not use refunds as estimated payments for the succeeding
30 tax year. The department shall determine by July 1 of the tax
31 year following the tax year for which the refund claim is
32 filed if the aggregate amount of refund claims in excess of
33 revenue gains exceeds three million five hundred thousand
34 dollars for the tax year. Notwithstanding any provision,
35 interest shall not be due on any refund claims that are paid

1 by September 1 of the tax year following the tax year for
2 which the refund claim is filed. For taxpayers that are
3 fiscal year filers, the amount of the refund claim allowed
4 shall be in the same ratio as the refund claims allowed for
5 the tax year in which the taxpayer's fiscal year began.

6 Sec. 20. Section 422.5, subsection 1, paragraph k,
7 subparagraph (3), unnumbered paragraph 3, Code 1995, is
8 amended to read as follows:

9 In the case of a resident, including a resident estate or
10 trust, the state's apportioned share of the state alternative
11 minimum tax is one hundred percent of the state alternative
12 minimum tax computed in this subsection. In the case of a
13 resident or part-year resident shareholder in a subchapter S
14 corporation which makes an election under section 422.36,
15 subsection 5, paragraph "b" to be taxed as a regular
16 corporation and a nonresident, including a nonresident estate
17 or trust, or an individual, estate, or trust that is domiciled
18 in the state for less than the entire tax year, the state's
19 apportioned share of the state alternative minimum tax is the
20 amount of tax computed under this subsection, reduced by the
21 applicable credits in sections 422.10 through 422.12 and this
22 result multiplied by a fraction with a numerator of the sum of
23 state net income allocated to Iowa as determined in section
24 422.8, subsection 2, paragraph "a" or "b", as applicable, plus
25 tax preference items, adjustments, and losses under
26 subparagraph (1) attributable to Iowa and with a denominator
27 of the sum of total net income computed under section 422.7
28 plus all tax preference items, adjustments, and losses under
29 subparagraph (1). In computing this fraction, those items
30 excludable under subparagraph (1) shall not be used in
31 computing the tax preference items. Married taxpayers
32 electing to file separate returns or separately on a combined
33 return must allocate the minimum tax computed in this
34 subsection in the proportion that each spouse's respective
35 preference items, adjustments, and losses under subparagraph

1 (1) bear to the combined preference items, adjustments, and
2 losses under subparagraph (1) of both spouses.

3 Sec. 21. Section 422.7, Code Supplement 1995, is amended
4 by adding the following new subsection:

5 NEW SUBSECTION. 35. In determining gain or loss from the
6 sale or other disposition of stock of a subchapter S
7 corporation which makes an election pursuant to section
8 422.36, subsection 5, paragraph "b" to be taxed as a regular
9 corporation, the basis of a taxpayer in that stock shall be
10 adjusted for Iowa income tax purposes under rules of the
11 director to reflect any adjustment in Iowa income taxes paid
12 by the taxpayer pursuant to section 422.5, subsection 1,
13 paragraph "j", subparagraph (2).

14 Sec. 22. Section 422.8, subsection 2, Code 1995, is
15 amended to read as follows:

16 2. a. Nonresident's net income allocated to Iowa is the
17 net income, or portion thereof of the net income, which is
18 derived from a business, trade, profession, or occupation
19 carried on within this state or income from any property,
20 trust, estate, or other source within Iowa. However, income
21 derived from a business, trade, profession, or occupation
22 carried on within this state and income from any property,
23 trust, estate, or other source within Iowa shall not include
24 distributions from pensions, including defined benefit or
25 defined contribution plans, annuities, individual retirement
26 accounts, and deferred compensation plans or any earnings
27 attributable thereto so long as the distribution is directly
28 related to an individual's documented retirement and received
29 while the individual is a nonresident of this state. If a
30 business, trade, profession, or occupation is carried on
31 partly within and partly without the state, only the portion
32 of the net income which is fairly and equitably attributable
33 to that part of the business, trade, profession, or occupation
34 carried on within the state is allocated to Iowa for purposes
35 of section 422.5, subsection 1, paragraph "j", and section

1 422.13 and income from any property, trust, estate, or other
2 source partly within and partly without the state is allocated
3 to Iowa in the same manner, except that annuities, interest on
4 bank deposits and interest-bearing obligations, and dividends
5 are allocated to Iowa only to the extent to which they are
6 derived from a business, trade, profession, or occupation
7 carried on within the state.

8 b. A resident's income allocated to Iowa is the income
9 determined under section 422.7 reduced by items of income,
10 loss, and expenses from a subchapter S corporation which makes
11 an election pursuant to section 422.36, subsection 5,
12 paragraph "b", to be taxed as a regular corporation, which
13 passes directly to the shareholders under provisions of the
14 Internal Revenue Code, with the following adjustments:

15 (1) Add cash or value of property distributions made to
16 the extent paid from income upon which Iowa income tax has not
17 been paid as determined under rules of the director.

18 (2) Subtract the amounts of distributions made in
19 subparagraph (1) that were, under rules of the director,
20 distributed to the shareholder to enable the shareholder to
21 pay federal income tax on items of income, loss, and expenses
22 from a subchapter S corporation which makes an election
23 pursuant to section 422.36, subsection 5, paragraph "b", to be
24 taxed as a regular corporation, which pass directly to the
25 shareholders under provisions of the Internal Revenue Code.

26 Sec. 23. Section 422.8, Code 1995, is amended by adding
27 the following new subsection:

28 NEW SUBSECTION. 6. If the resident or part-year resident
29 is a shareholder of a subchapter S corporation which makes an
30 election pursuant to section 422.36, subsection 5, paragraph
31 "b", to be taxed as a regular corporation, subsections 1 and 3
32 do not apply to any income taxes paid to another state or
33 foreign country on the income from the subchapter S
34 corporation.

35 Sec. 24. Section 422.32, subsection 4, Code Supplement

1 1995, is amended to read as follows:

2 4. "Corporation" includes joint stock companies, and
3 associations organized for pecuniary profit, and publicly
4 traded partnerships and limited liability companies taxed as
5 corporations under the Internal Revenue Code and any
6 subchapter S corporation which has in effect an election under
7 section 422.36, subsection 5, paragraph "b", to be taxed as a
8 regular corporation.

9 Sec. 25. Section 422.32, Code Supplement 1995, is amended
10 by adding the following new subsection:

11 NEW SUBSECTION. 11. The term "value-added corporation"
12 means a corporation that purchases, receives, or holds
13 personal property of any description and which adds to its
14 value by a process of manufacturing, construction, processing,
15 or combining of different materials, and shall specifically
16 include the economic activity identified in divisions C and D
17 of the standard industrial classification codes appearing in
18 13 C.F.R. ch. 1(1-1-94 edition), with a view to selling the
19 finished product for gain or profit. A corporation engaged in
20 more than one business activity is a value-added corporation
21 if more than fifty percent of its gross receipts, figured on a
22 three-year annual average, or such shorter period as the
23 corporation shall have been in existence, are from the
24 processes previously identified.

25 Sec. 26. Section 422.35, unnumbered paragraph 1, Code
26 Supplement 1995, is amended to read as follows:

27 The term "net income" means the taxable income before the
28 net operating loss deduction, as properly computed for federal
29 income tax purposes under the Internal Revenue Code, or in the
30 case of subchapter S corporations that make an election
31 pursuant to section 422.36, subsection 5, paragraph "b", "net
32 income" means the sum of all items of distributive shares of
33 income, loss, and expenses of the corporation as determined
34 under rules of the director, with the following adjustments:

35 Sec. 27. Section 422.36, subsection 5, Code 1995, is

1 amended to read as follows:

2 5. a. Where Unless an election is made under paragraph
3 "b" to be taxed under this division, where a corporation is
4 not subject to income tax and the stockholders of such the
5 corporation are taxed on the corporation's income under the
6 provisions-of the Internal Revenue Code, the same tax
7 treatment shall-apply-to-such applies to the corporation and
8 such the stockholders for Iowa income tax purposes.

9 b. A subchapter S corporation which is a value-added
10 corporation which does business both within and without the
11 state may elect to be taxed as a regular corporation under
12 this division. The election shall be made not later than the
13 due date for filing its return for the first taxable year for
14 which the election is to be effective, including any
15 extensions beyond that date, on a form provided by the
16 director and signed by the shareholders holding more than one-
17 half of the shares of stock of the corporation on the last day
18 of the first taxable year for which the election is to be
19 effective. The election shall be effective for that taxable
20 year and for subsequent taxable years until revoked.

21 c. The corporation may revoke its election under paragraph
22 "b" by a revocation made not later than the due date for
23 filing its return for the taxable year for which the
24 revocation is to be effective, including any extensions beyond
25 that date, on a form provided by the director and signed by
26 shareholders holding more than one-half of the shares of stock
27 of the corporation on the last day of the first taxable year
28 for which the revocation is to be effective. However, a
29 corporation that has made an election under paragraph "b"
30 shall not be eligible to make an election under this paragraph
31 for revocation of the election under paragraph "b" for any
32 taxable year before its fourth taxable year following the
33 first taxable year for which the election under paragraph "b"
34 was effective, unless the director consents to the revocation.

35 Sec. 28. This division of this Act, being deemed of

1 immediate importance, takes effect upon enactment and applies
2 retroactively to January 1, 1996, for tax years of individuals
3 beginning on or after that date and for tax years of
4 corporations ending on or after that date.

5 DIVISION V

6 QUALIFIED VENTURE CAPITAL COMPANY

7 Sec. 29. NEW SECTION. 15E.175 DEFINITIONS.

8 As used in this section and sections 15E.176 and 15E.177:

9 1. "Iowa business" means a business or industry,
10 incorporated or unincorporated, which meets all the following
11 criteria:

12 a. Has or will have, within thirty days after a loan or
13 investment is made by a qualified venture capital company, at
14 least fifty percent of its employees or assets located in Iowa
15 and agrees to maintain at least fifty percent of its employees
16 or assets in Iowa following investment in the business by a
17 qualified venture capital company.

18 b. A business which is unable to raise equity capital or
19 obtain financing from conventional sources in order to remain
20 viable or to commence or expand its ability to provide goods
21 or services.

22 2. "Qualified venture capital company" means a
23 corporation, limited liability company, or a general or
24 limited partnership with its principal place of business
25 located within this state, which meets all of the following
26 requirements:

27 a. Has an initial private capitalization of not less than
28 twenty million dollars.

29 b. Is organized by the Iowa business investment
30 corporation, organized under division XV of this chapter, to
31 directly or indirectly through its subsidiaries or affiliates
32 invest in debt and equity securities of Iowa businesses.

33 c. Seeks approval from the federal small business
34 administration to establish a small business investment
35 company that is incorporated in Iowa and maintains its

1 principal place of business in this state the purpose of which
2 includes increasing the availability of funds for investment
3 in and loans to Iowa businesses.

4 d. Will provide or arrange for managerial and other
5 advice, assistance, and support for Iowa businesses.

6 e. Does not invest funds under this division for the
7 expansion of operations of an Iowa business in another state.

8 3. "Taxpayer" means an entity subject to tax under chapter
9 422, division III, chapter 422, division V, or chapter 432.

10 4. "Tax year" means for entities subject to the state
11 corporate income tax or the state franchise tax under chapter
12 422, division III or V, respectively, the tax year as defined
13 for those divisions or means for insurance companies subject
14 to the gross premiums tax under chapter 432, the calendar year
15 for which the premiums are taxed.

16 Sec. 30. NEW SECTION. 15E.176 TAX CREDITS.

17 1. For tax years beginning on or after January 1, 1997,
18 there is allowed a credit against that tax imposed under the
19 corporate income tax in chapter 422, division III, the
20 franchise tax in chapter 422, division V, or the gross
21 premiums tax in chapter 432, for investments made by the
22 taxpayer in a qualified venture capital company whose purpose
23 includes establishing or expanding Iowa business.

24 2. The amount of credit allowed under subsection 1,
25 subject to subsection 4, is computed as follows:

26 a. The amount of the qualified venture capital company's
27 investment in Iowa businesses is divided by the amount of new
28 cash invested in the qualified venture capital company.

29 b. The resulting percentage, which shall not exceed fifty
30 percent, is multiplied by the amount of the taxpayer's
31 investment in the qualified venture capital company.

32 c. The amount of the credit is equal to ten percent of the
33 product determined in paragraph "b".

34 d. The qualified venture capital company shall compute as
35 of the end of the qualified venture capital company's tax year

1 the amounts under paragraph "c" for each tax year the
2 qualified venture capital company is entitled to the credit.

3 3. The qualified venture capital company is allowed the
4 credit as computed each year in subsection 2 for up to ten
5 consecutive years beginning with the first year for which the
6 credit is taken.

7 If the amount of the credit exceeds the qualified venture
8 capital company's tax liability for the tax year, the excess
9 may be credited to the tax liability for the following five
10 tax years or until depleted, whichever is the earlier, and is
11 in addition to any other credit allowed under this section.

12 4. Notwithstanding the amount of credit computed in
13 subsection 2, the total amount of credits for all qualified
14 venture capital companies that shall be allowed under
15 subsection 1 for any fiscal year of the qualified venture
16 capital company shall not exceed one million two hundred fifty
17 thousand dollars and for all fiscal years of the qualified
18 venture capital company shall not exceed twelve million five
19 hundred thousand dollars. In determining if the credit
20 allowed has exceeded the fiscal year limit, credits carried
21 over from a previous tax year are not counted.

22 5. The credit provided for in subsection 2, to the extent
23 not previously utilized, shall be freely transferable to and
24 by subsequent transferees for a period of ten years from the
25 date the credit is first available to the qualified venture
26 capital company.

27 Sec. 31. NEW SECTION. 15E.177 COORDINATION OF RESOURCES.

28 If a qualified venture capital company is organized by the
29 Iowa business investment corporation on or before December 31,
30 1997, within ninety days following its organization, the
31 qualified venture capital company shall develop and submit a
32 written proposal to the shareholders of each business
33 development finance corporation organized pursuant to division
34 XIII of this chapter, calling for the investment of all the
35 assets of each business development finance corporation in

1 securities of the qualified venture capital company. A notice
2 of a special meeting of the shareholders of the business
3 development finance corporation and the written proposal made
4 to the business development finance corporation by the
5 qualified venture capital company shall be delivered to the
6 shareholders of each business development finance corporation
7 entitled to vote at the special shareholders meeting not less
8 than ten nor more than sixty days before the meeting date
9 given by the qualified venture capital company. Action on the
10 written proposal by the board of directors of the business
11 development finance corporation or any other person shall not
12 be required to call the special meeting or authorize voting on
13 the written proposal by the shareholders of the business
14 development finance corporation. If at the special meeting of
15 shareholders of the business development finance corporation
16 or any recesses thereof, a majority of the shareholders
17 present or represented at the special meeting approve the
18 investment proposed by the qualified venture capital company,
19 the business development finance corporation shall immediately
20 make such an investment of all of its assets. The investment
21 by a business development finance corporation of all of its
22 assets in the qualified venture capital corporation shall not
23 be considered a sale of assets other than in the usual and
24 regular course of business and division XIII of the Iowa
25 business development finance Act shall not apply to the
26 transaction. The qualified venture capital company may make
27 additional proposals as often as it desires to the
28 shareholders of each business development finance corporation
29 that did not approve the initial investment proposal. Except
30 for the requirement that a written proposal be presented to
31 the shareholders within ninety days of the organization of the
32 qualified venture capital company, the provisions of this
33 section shall apply to all additional proposals.

34 Sec. 32. Section 422.33, Code Supplement 1995, is amended
35 by adding the following new subsection:

1 NEW SUBSECTION. 9. There is allowed as a credit against
2 the tax determined in subsection 1 for a tax year an amount
3 equal to the qualified venture capital credit as provided in
4 section 15E.176. Notwithstanding any other provision, the
5 credit allowed for in this subsection shall be applied prior
6 to all other credits allowed the taxpayer. The taxpayer shall
7 not receive for the same investment a credit under subsection
8 8 and this subsection.

9 Sec. 33. Section 422.60, Code Supplement 1995, is amended
10 by adding the following new subsection:

11 NEW SUBSECTION. 4. There is allowed as a credit against
12 the tax determined in this division for a tax year an amount
13 equal to the qualified venture capital credit as provided in
14 section 15E.176. Notwithstanding any other provision, the
15 credit allowed for in this subsection shall be applied prior
16 to all other credits allowed the taxpayer. The allocation of
17 revenues to a city or county under section 422.65 shall be
18 determined as if the credit under this subsection had not been
19 taken.

20 Sec. 34. Section 432.1, Code 1995, is amended by adding
21 the following new subsection:

22 NEW SUBSECTION. 5. There is allowed as a credit against
23 the tax determined in subsection 1 or 2 for a tax year an
24 amount equal to the qualified venture capital credit as
25 provided in section 15E.176. Notwithstanding any other
26 provision, the credit allowed for in this subsection shall be
27 applied prior to all other credits allowed the taxpayer.

28 Sec. 35. 1992 Iowa Acts, chapter 1244, section 1,
29 subsection 2, paragraph e, unnumbered paragraph 1, as amended
30 by 1993 Iowa Acts, chapter 180, section 46, as amended by 1994
31 Iowa Acts, chapter 1201, section 29, is amended to read as
32 follows:

33 For transfer to the treasurer of state for the purpose of
34 facilitating the organization and private capitalization of
35 the small business investment company or other entity under

1 sections 15E.169 through 15E.171. If the small business
2 investment company or another entity for which the funds are
3 to be used is not organized ~~within-thirty-six-months-of-the~~
4 ~~effective-date-of-this-Act~~, unused funds shall revert to the
5 general fund of the state, however, if such an entity is
6 organized, the unused funds shall be transferred irrevocably
7 to the qualified venture capital company or other entity for
8 which the funds are to be used:

9 \$ 200,000

10 Sec. 36. APPLICABILITY. This division of this Act applies
11 for tax years of entities subject to the state corporate
12 income tax or franchise tax which begin on or after January 1,
13 1997. This division of this Act applies for calendar years
14 beginning on or after January 1, 1997, for entities subject to
15 the gross premiums tax under chapter 432.

16 DIVISION VI

17 FAMILY FARM FEEDING OPERATIONS

18 Sec. 37. NEW SECTION. 175A.1 SHORT TITLE.

19 This chapter shall be known and may be cited as the "Iowa
20 Family Farm Animal Feeding Operations Preservation Act".

21 Sec. 38. NEW SECTION. 175A.2 PURPOSE.

22 The purpose of this chapter is to address a grave threat to
23 traditional farmers who produce animals in this state and who
24 face capitalization barriers and the consolidation of animal
25 agriculture, which results in fewer individuals engaged in
26 farming. These conditions result in a loss in population,
27 unemployment and a movement of persons from rural communities
28 to urban areas accompanied by added costs to communities for
29 the creation of new public facilities and services. It is
30 therefore necessary to assist small and medium sized family
31 farm animal feeding operations in order to expand such
32 operations and preserve a way of life which has traditionally
33 supported Iowa's economy and communities.

34 Sec. 39. NEW SECTION. 175A.3 DEFINITIONS.

35 1. "Animal feeding operation" means the same as defined in

1 section 455B.161.

2 2. "Animal feeding operation structure" means the same as
3 defined in section 455B.161.

4 3. "Animal weight capacity" means the same as defined in
5 section 455B.161.

6 4. "Authority" means the agricultural development
7 authority established pursuant to section 175.3.

8 5. "Family farm animal feeding operation" or "operation"
9 means an animal feeding operation located on the land where
10 the owner of the operation also engages in farming activities
11 other than animal feeding operation activities, if all of the
12 following criteria are satisfied:

13 a. The total animal weight capacity of all animals other
14 than bovine animals owned by the person is two hundred
15 thousand pounds or less, and the total animal weight capacity
16 of bovine animals owned by the person is four hundred thousand
17 pounds or less.

18 b. A person holding an interest in the animal feeding
19 operation owns all animals confined and fed in the animal
20 feeding operation.

21 c. The person who owns the animal feeding operation raises
22 and harvests crops in the same or an adjoining county where
23 the animal feeding operation is located.

24 d. The person who owns the animal feeding operation is one
25 of the following:

26 (1) A natural person.

27 (2) A general partnership composed exclusively of natural
28 persons.

29 e. Each person who holds an interest in the animal feeding
30 operation resides in this state.

31 f. The animal feeding operation is located entirely within
32 the state.

33 6. "Farming" means the same as defined in section 175.2.

34 7. "Lending institution" means a bank, trust company,
35 mortgage company, national banking association, savings and

1 loan association, life insurance company, any state or federal
2 governmental agency or instrumentality, including without
3 limitation the federal land bank or any of its local
4 associations, or any other financial institution or entity
5 authorized to make farm operating loans in this state.

6 8. "Low or moderate net worth" means:

7 a. For an individual, an aggregate net worth of the
8 individual and the individual's spouse and minor children of
9 less than two hundred thousand dollars.

10 b. For any general partnership, an aggregate net worth of
11 all partners, including each partner's net capital in the
12 partnership, and of each partner's spouse and minor children
13 of less than three hundred thousand dollars. However, the
14 aggregate net worth of each partner and that partner's spouse
15 and minor children shall not exceed two hundred thousand
16 dollars.

17 9. "Net worth" means a person's total assets minus total
18 liabilities as determined in accordance with generally
19 accepted accounting principles with appropriate exceptions and
20 exemptions reasonably related to an equitable determination of
21 a person's net worth. Assets shall be valued at fair market
22 value.

23 10. "Note" means a bond anticipation note or other
24 obligation or evidence of indebtedness issued by the authority
25 pursuant to this chapter.

26 11. "Secured loan" means a financial obligation secured by
27 a chattel mortgage, security agreement, or other instrument
28 creating a lien on an interest in depreciable agricultural
29 property.

30 Sec. 40. NEW SECTION. 175A.4 ASSISTANCE PROGRAMS.

31 1. The authority shall administer programs under this
32 section to assist family farm animal feeding operations. The
33 department of revenue and finance shall assist the authority
34 in administering this section.

35 2. In order to assist a family farm animal feeding

1 operation in financing the operation, including by assisting
2 in whole or in part the acquisition of animals, or the
3 purchase of agricultural land, the purchase of agricultural
4 improvements or depreciable agricultural property, the
5 construction of buildings, facilities, or animal feeding
6 operation structures, related to the operation, the authority
7 shall do all of the following:

8 a. Cooperate with any other state agency or the federal
9 government, including supplementing assistance provided by
10 another state agency and the federal government.

11 b. Administer other programs provided under chapter 175,
12 including supplementing assistance provided by other programs.

13 c. Provide certification necessary to allow owners of
14 operations to claim an income tax credit as provided in
15 section 175A.5, and a property tax exemption pursuant to
16 section 427.1.

17 d. Administer the following programs:

18 (1) A loan guarantee program to provide for guaranteeing
19 of all or part of a loan made to the operation.

20 (2) An interest buy-down program, in which the authority
21 contracts with a participating lending institution to reduce
22 the interest rate charged on a loan to the operation. The
23 authority shall determine the amount that the rate is reduced
24 by considering the lending institution's customary loan rate
25 for the type of loan sought as certified to the authority by
26 the lending institution. As part of the contract, in order to
27 reimburse the lending institution for the reduction of the
28 interest rate on the loan, the authority may agree to grant
29 the lending institution any amount foregone by reducing the
30 interest rate on that portion of the loan which is three
31 hundred thousand dollars or less. However, the amount
32 reimbursed shall not be more than fifty percent of the amount
33 of interest foregone by the lending institution on the loan.

34 3. The amount of assistance awarded to a family farm
35 animal feeding operation shall be based on the extent to which

1 the following apply:

2 a. The operation has a low or moderate net worth.

3 b. The owner of the family farm animal feeding operation
4 utilizes a computer or recordkeeping system designed to
5 monitor herd performance, as approved by Iowa state
6 university.

7 c. The person managing the operation is actively engaged
8 in improving the management of the operation, which may
9 include participating in the livestock producers assistance
10 program provided pursuant to section 266.39D, or employing a
11 person qualified by the American registry of professional
12 animal science, who is actively engaged in the profession of
13 consulting with livestock producers for the purpose of
14 increasing production or enhancing performance of livestock.

15 4. In order to participate in a program administered under
16 this section, all of the following must apply:

17 a. The family farm animal feeding operation or any person
18 holding an interest in the operation is not classified as a
19 habitual violator as provided in section 455B.191.

20 b. The assistance provided by the authority under this
21 section is not used to construct, repair, or expand an
22 anaerobic lagoon or earthen manure storage basin as defined in
23 section 455B.161.

24 5. a. The authority shall adopt rules to administer this
25 section, including the enforcement of terms of a contract to
26 which the authority is a party. The authority may require a
27 lending institution or a family farm animal feeding operation
28 to submit evidence satisfactory to the authority that the
29 lending institution or operation has complied with the
30 authority's requirements.

31 b. The authority may inspect any records of a lending
32 institution or a family farm animal feeding operation which
33 are pertinent to the administration of a program. In order to
34 assure compliance with this section and rules adopted pursuant
35 to this section, the authority may establish by rule

1 appropriate enforcement provisions, including but not limited
2 to, the payment of civil penalties by a lending institution or
3 operation. The authority may also enforce the provisions of
4 this section or terms of the contract by bringing an action in
5 any court of competent jurisdiction to recover damages.

6 6. A lending institution and the borrower participating in
7 a program under this section shall each pay to the authority
8 one-half of an origination fee which shall not exceed one
9 percent of the loan. In addition, the lending institution
10 shall pay a fee equal to twenty-five basis points on the loan
11 to the authority on an annual basis.

12 7. The fact that the family farm animal feeding operation
13 or the person who owns the operation has received assistance,
14 monetary or otherwise, from the authority shall not prevent
15 the operation from being eligible for assistance under
16 programs available under this section.

17 Sec. 41. NEW SECTION. 175A.5 INCOME TAX CREDIT.

18 1. A family farm animal feeding operation which receives
19 at least ten thousand dollars in assistance under section
20 175A.4 as certified by the authority under section 175A.4
21 shall be entitled to receive a tax credit equal to ten percent
22 of all new investments made in the operation not later than
23 the tax year following the tax year in which the operation
24 receives assistance under section 175A.4.

25 2. For purposes of this section, "new investment" means
26 the capitalized cost of all real and personal property related
27 to the family farm animal feeding operation, including
28 animals; buildings and animal feeding operation structures
29 qualifying under this section; equipment; and other
30 improvements to the operation, purchased or otherwise acquired
31 or relocated to the operation. "New investment" does not
32 include intangible property, or furniture and furnishings.
33 For the purposes of this section, capitalized cost of property
34 shall be determined in accordance with accounting methods used
35 by the taxpayer in determining the taxpayer's income for state

1 tax purposes.

2 3. Any credit in excess of the tax liability for the tax
3 year may be applied to the tax liability for the following ten
4 years or until depleted, whichever occurs first.

5 4. The department of revenue and finance shall adopt any
6 rules necessary to administer this section.

7 Sec. 42. NEW SECTION. 175A.6 FAMILY FARM ANIMAL FEEDING
8 OPERATION FUND.

9 1. A family farm animal feeding operation fund is created
10 within the state treasury under the control of the authority.
11 The fund shall consist of any moneys appropriated by the
12 general assembly, fees paid to the authority, and any other
13 moneys available to and obtained or accepted by the authority
14 from the federal government or private sources for placement
15 in the fund. Moneys shall be deposited in the fund as
16 provided in section 175A.7. Not more than one hundred fifty
17 thousand dollars shall be available annually from the fund for
18 administration of section 175A.4. The assets of the fund
19 shall be used by the authority only for carrying out the
20 purposes of section 175A.1 and section 427.1, subsection 28.

21 2. In administering the fund the authority may do all of
22 the following:

23 a. Contract, sue and be sued, and adopt administrative
24 rules necessary to administer this section. However, the
25 authority shall not in any manner directly or indirectly
26 pledge the credit of the state.

27 b. Authorize payment from the fund for costs, commissions,
28 attorney fees, and other reasonable expenses, including
29 expenses related to carrying out duties necessary for
30 administering programs provided for under section 175A.4,
31 including for guaranteeing loans, and for the recovery of loan
32 moneys guaranteed or the management of property acquired in
33 connection with such loans.

34 3. Payments of interest, recaptures of awards, or
35 repayments of moneys provided in assistance under section

1 175A.4 shall be deposited into the fund. Section 8.33 does
2 not apply to any moneys in the fund until June 30, 2001.
3 Notwithstanding section 12C.7, interest or earnings on
4 investments or time deposits of the moneys in the fund shall
5 be credited to the fund.

6 4. The fund is subject to an annual audit as provided by
7 the authority. Moneys in the fund, which may be subject to
8 warrants written by the director of revenue and finance, shall
9 be drawn upon the written requisition of the authority's
10 executive director.

11 Sec. 43. NEW SECTION. 175A.7 STANDING APPROPRIATION.

12 For each fiscal year of the fiscal period beginning July 1,
13 1996, and ending June 30, 2002, there is appropriated twelve
14 million dollars from the general fund of the state to the
15 family farm animal feeding operation fund created in section
16 175A.6.

17 Sec. 44. Section 427.1, Code Supplement 1995, is amended
18 by adding the following new subsection:

19 NEW SUBSECTION. 28. The property of a family farm animal
20 feeding operation as defined in section 175A.3, which receives
21 at least ten thousand dollars in assistance awarded and
22 certified by the agricultural development authority under
23 section 175A.4 shall be exempt from taxation for a period of
24 five years, to the extent provided in this subsection.

25 a. The exemption shall apply as follows:

26 (1) It begins on January 1 of the year following the year
27 in which the family farm animal feeding operation receives
28 assistance under section 175A.4.

29 (2) It is limited to the market value, as defined in
30 section 441.21, of the property of the family farm animal
31 feeding operation. If the property of the family farm animal
32 feeding operation is assessed with other property as a unit,
33 the exemption shall be limited to the net market value of the
34 property of the family farm animal feeding operation
35 determined as of the assessment date.

1 b. In order to receive the exemption, the owner of the
2 operation must file for the exemption with the assessing
3 authority not later than the first of February of the first
4 year for which the exemption applies, on forms provided by the
5 agricultural development authority. The application shall
6 provide a description of the family farm animal feeding
7 operation subject to the exemption. The application shall be
8 accompanied by a certificate of assistance provided by the
9 agricultural development authority.

10 c. The assessing authority shall retain a permanent file
11 of current exemptions filed in the assessing authority's
12 office. Not later than July 6 of each year, the assessing
13 authority shall remit a statement certifying the total amount
14 of exemptions allowed under this subsection. After receiving
15 the certification, the agricultural development authority
16 shall draw warrants on the family farm animal feeding
17 operation fund created in section 175A.6 which shall be
18 payable to the county treasurer in the amount certified by the
19 assessing authority, and shall mail the warrants to the county
20 treasurers on August 15 of each year. However, if the family
21 farm animal feeding operation fund does not have sufficient
22 moneys available to pay in full the total of the amounts
23 certified to the agricultural development authority, the
24 authority shall prorate unobligated and unencumbered moneys in
25 the fund to the county treasurers.

26 d. If the county treasurer has received a percentage
27 amount of the amount certified to the agricultural development
28 authority, the county treasurer shall for the following fiscal
29 year grant each exemption from the previous fiscal year an
30 exemption equal to the percentage amount which the county
31 treasurer was reimbursed for that exemption unless the
32 reimbursement for that exemption is fully funded by February 1
33 preceding the next fiscal year.

34 Sec. 45. FUTURE REPEAL.

35 1. Sections 175A.5 and 175A.7 are repealed.

1 2. Section 427.1, subsection 28, is amended by striking
2 the subsection.

3 3. This section takes effect on July 1, 2002.

4 4. Notwithstanding this section, an income tax credit
5 granted pursuant to section 175A.5, or a property tax
6 exemption provided under section 427.1, subsection 28, shall
7 continue in effect and shall be administered and enforced
8 until its expiration as provided in this division of this Act.

9 DIVISION VII

10 FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

11 Sec. 46. Section 425A.1, Code 1995, is amended to read as
12 follows:

13 425A.1 FAMILY FARM TAX CREDIT FUND.

14 The family farm tax credit fund is created in the office of
15 the treasurer of state. There shall be transferred
16 appropriated annually to the fund the first-ten-million
17 ~~dollars-of-the-amount-annually-appropriated-to-the~~
18 ~~agricultural-land-credit-fund, provided in section 426.1~~ sum
19 of thirty-five million dollars. Any balance in the fund on
20 June 30 shall revert to the general fund.

21 Sec. 47. Section 425A.2, subsection 4, Code 1995, is
22 amended to read as follows:

23 4. "Designated person" means one of the following:

24 a. If the owner is an individual, the designated person
25 includes the owner of the tract ~~or-a-person-related-to-the~~
26 owner-as, the owner's spouse, parent, grandparent, the owner's
27 child, grandchild, or stepchild, and their spouses, or the
28 owner's relative within the third degree of consanguinity, and
29 the relative's spouse.

30 b. If the owner is a partnership, a partner, or the
31 partner's spouse.

32 c. If the owner is a family farm corporation, a family
33 member who is a shareholder of the family farm corporation or
34 the shareholder's spouse.

35 d. If the owner is an authorized farm corporation, a

1 shareholder who owns at least fifty-one percent of the stock
2 of the authorized farm corporation or the shareholder's
3 spouse.

4 e. If the owner is an individual who leases the tract to a
5 family farm corporation, a shareholder of the corporation if
6 the combined stock of the family farm corporation owned by the
7 owner of the tract and persons related to the owner as
8 enumerated in paragraph "a" is equal to at least fifty-one
9 percent of the stock of the family farm corporation.

10 f. If the owner is an individual who leases the tract to a
11 partnership, a partner if the combined partnership interest
12 owned by the owner of the tract and persons related to the
13 owner as enumerated in paragraph "a" is equal to at least
14 fifty-one percent of the ownership interest of the
15 partnership.

16 Sec. 48. Section 426.1, Code 1995, is amended to read as
17 follows:

18 426.1 AGRICULTURAL LAND CREDIT FUND.

19 There is created as a permanent fund in the office of the
20 treasurer of state a fund to be known as the agricultural land
21 credit fund, and for the purpose of establishing and
22 maintaining this fund for each fiscal year there is
23 appropriated ~~thereto~~ to the fund from funds in the general
24 fund not otherwise appropriated the sum of ~~thirty-nine~~ twenty-
25 nine million one hundred thousand dollars ~~of which the first~~
26 ~~ten-million-dollars shall be transferred to and deposited into~~
27 ~~the family farm tax credit fund created in section 425A.1.~~

28 Any balance in said fund on June 30 shall revert to the
29 general fund.

30 Sec. 49. This division of this Act, being deemed of
31 immediate importance, takes effect upon enactment and applies
32 to family farm tax credits and agricultural land credits
33 allowed for property taxes due and payable in fiscal years
34 beginning on or after July 1, 1996.

35 DIVISION VIII

PROPERTY TAX STUDY

1
2 Sec. 50. The legislative council shall direct the
3 establishment of a legislative committee to study the system
4 of local government property taxation. The committee shall
5 conduct a comprehensive review of the property tax system in
6 Iowa, including identifying the various classes of property
7 taxpayers, the portion of property taxes collected from each
8 class of taxpayer, the distribution of those taxes to local
9 governments, and the value of local government services
10 received by a class of taxpayers in relation to the amount of
11 property taxes paid by that class. The committee shall also
12 examine the current system of property tax credits and
13 exemptions allowed to taxpayers, tax increment financing and
14 tax abatement programs, property tax credits and exemptions,
15 the effect of tax abatement programs, and tax increment
16 financing on the tax rates applied to the other classes of
17 property, and the general authority of local officials to
18 abate property taxes.

19 As an integral part of the collection of taxes by local
20 governments, the committee shall also review the budgeting
21 procedures and practices of local governments, including the
22 process of estimating and spending ending fund balances; the
23 authorization to use, or the practice of using, unexpended
24 funds or ending fund balances for capital improvements or
25 other nonrecurring expenditures; and the impact on property
26 tax rates of actions of the school budget review committee,
27 the state appeal board, the application of the property tax
28 rollback, and the application of equalization orders issued by
29 the department of revenue and finance.

30 The committee shall also review the use of property taxes
31 as the sole or major source of funding for school, city, and
32 county services and the use of alternate sources of revenues
33 to pay for such services, the repayment of bonds or other debt
34 obligations by local governments, the use of alternate sources
35 of revenue to repay bonds or other debt obligations, and the

1 current statutory requirements for the issuance of bonds or
2 other debt obligations by local governments.

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SENATE FILE 2449

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1 Amend Senate File 2449, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. By striking everything after the enacting
4 clause and inserting the following:

5

"DIVISION I

6

INCOME TAX INDEXATION

7

8 Section 1. Section 422.4, subsection 1, paragraphs
9 a and d, Code 1995, are amended to read as follows:

9

10 a. "Annual inflation factor" means an index,
11 expressed as a percentage, determined by the
12 department by October 15 of the calendar year
13 preceding the calendar year for which the factor is
14 determined, which reflects the purchasing power of the
15 dollar as a result of inflation during the fiscal year
16 ending in the calendar year preceding the calendar
17 year for which the factor is determined. In
18 determining the annual inflation factor, the
19 department shall use the annual percent change, but
20 not less than zero percent, in the ~~implicit-price~~
21 ~~deflator-for-the-gross-national-product~~ gross domestic
22 product price deflator computed for the second quarter
23 of the calendar year by the bureau of economic
24 analysis of the United States department of commerce
25 and shall add ~~one-half~~ all of that percent change to
26 one hundred percent. The annual inflation factor and
27 the cumulative inflation factor shall each be
28 expressed as a percentage rounded to the nearest one-
29 tenth of one percent. The annual inflation factor
30 shall not be less than one hundred percent.

30

31 d. Notwithstanding the computation of the annual
32 inflation factor under paragraph "a", the annual
33 inflation factor is one hundred percent for any
34 calendar year in which the unobligated state general
35 fund balance on June 30 as certified by the director
36 of the department of management by October 10, is less
37 than sixty million dollars. Notwithstanding section
38 8.58, in determining the unobligated state general
39 fund balance on June 30, unobligated moneys in the
40 cash reserve fund and Iowa economic emergency fund on
41 June 30 shall be counted as part of the unobligated
42 state general fund balance for purposes of this
43 paragraph.

43

44 Sec. 2. Section 422.4, subsection 2, paragraph a,
45 Code 1995, is amended to read as follows:

45

46 a. "Annual standard deduction factor" means an
47 index, expressed as a percentage, determined by the
48 department by October 15 of the calendar year
49 preceding the calendar year for which the factor is
50 determined, which reflects the purchasing power of the
51 dollar as a result of inflation during the fiscal year

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1 ending in the calendar year preceding the calendar
2 year for which the factor is determined. In
3 determining the annual standard deduction factor, the
4 department shall use the annual percent change, but
5 not less than zero percent, in the ~~implicit-price~~
6 ~~deflator-for-the-gross-national-product~~ gross domestic
7 product price deflator computed for the second quarter
8 of the calendar year by the bureau of economic
9 analysis of the United States department of commerce
10 and shall add ~~one-half~~ all of that percent change to
11 one hundred percent. The annual standard deduction
12 factor and the cumulative standard deduction factor
13 shall each be expressed as a percentage rounded to the
14 nearest one-tenth of one percent. The annual standard
15 deduction factor shall not be less than one hundred
16 percent.

17 Sec. 3. This division of this Act, being deemed of
18 immediate importance, takes effect upon enactment and
19 applies to the computation of the annual inflation
20 factor and annual standard deduction factor for
21 calendar years beginning on or after January 1, 1996.
22 The department of revenue and finance shall adjust the
23 annual inflation factor and annual standard deduction
24 factor previously computed for the 1996 calendar year
25 to reflect the change made in the computation of those
26 factors in this Act.

DIVISION II

INHERITANCE TAXATION

27
28
29 Sec. 4. Section 450.7, subsection 1, unnumbered
30 paragraph 1, Code Supplement 1995, is amended to read
31 as follows:

32 Except for the share of the estate passing to the
33 surviving spouse, father or mother, each son and
34 daughter, including legally adopted sons and daughters
35 or biological sons and daughters, stepchildren, and
36 grandchildren, the tax is a charge against and a lien
37 upon the estate subject to tax under this chapter, and
38 all property of the estate or owned by the decedent
39 from the death of the decedent until paid, subject to
40 the following limitation:

41 Sec. 5. Section 450.9, subsection 1, Code 1995, is
42 amended to read as follows:

43 1. Surviving spouse, father or mother, son or
44 daughter, including legally adopted sons and daughters
45 or biological sons and daughters, stepchildren, or
46 grandchild, the entire amount of property, interest in
47 property, and income.

48 Sec. 6. Section 450.9, subsections 2 and 3, Code
49 1995, are amended by striking the subsections.

50 Sec. 7. Section 450.10, subsection 1, unnumbered

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1 paragraph 1, Code 1995, is amended to read as follows:

2 When the property, interest, or income passes to
3 ~~the father or mother, or to a child or a~~ lineal
4 descendant of the decedent, grantor, donor, or vendor,
5 ~~including a legally adopted child or biological child~~
6 ~~entitled to inherit under the laws of this state~~ not
7 included in subsection 7, the tax imposed shall be on
8 the individual share so passing in excess of the
9 exemptions allowed as follows:

10 Sec. 8. Section 450.10, subsection 2, unnumbered
11 paragraph 1, Code 1995, is amended to read as follows:

12 When the property or any interest ~~therein in~~
13 property, or income ~~therefrom~~ from property taxable
14 under the provisions of this chapter passes to the
15 brother or sister, son-in-law, or daughter-in-law, or
16 ~~step-children~~, the rate of tax imposed on the
17 individual share so passing shall be as follows:

18 Sec. 9. Section 450.10, subsection 7, Code 1995,
19 is amended to read as follows:

20 7. Property, interest in property, or income
21 passing to the surviving spouse, father or mother, son
22 or daughter, including legally adopted sons and
23 daughters or biological sons and daughters, stepchild,
24 or grandchild, is not taxable under this section.

25 Sec. 10. This division of this Act applies to
26 estates of decedents dying on or after July 1, 1996.

DIVISION III

SCHOOL PROPERTY TAX

29 Sec. 11. Section 257.3, subsection 1, unnumbered
30 paragraph 1, Code Supplement 1995, is amended to read
31 as follows:

32 ~~Except as provided in subsections 2 and 3, a~~ A
33 school district shall cause to be levied each year,
34 for the school general fund, a foundation property tax
35 equal to ~~five~~ four dollars and ~~forty~~ fifteen cents per
36 thousand dollars of assessed valuation on all taxable
37 property in the district. The county auditor shall
38 spread the foundation levy over all taxable property
39 in the district.

40 Sec. 12. Section 257.3, subsections 2 and 3, Code
41 Supplement 1995, are amended by striking the
42 subsections.

43 Sec. 13. Section 257.3, subsection 4, Code
44 Supplement 1995, is amended to read as follows:

45 4. RAILWAY CORPORATIONS. For purposes of section
46 257.1, the "amount per pupil of foundation property
47 tax" does not include the tax levied under subsection
48 ~~17-27-or-3~~ on the property of a railway corporation,
49 or on its trustee if the corporation has been declared
50 bankrupt or is in bankruptcy proceedings.

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1 Sec. 14. Section 275.55, unnumbered paragraph 4,
2 Code 1995, is amended by striking the unnumbered
3 paragraph.

4 Sec. 15. Section 425A.3, subsection 1, Code 1995,
5 is amended to read as follows:

6 1. The family farm tax credit fund shall be
7 apportioned each year in the manner provided in this
8 chapter so as to give a credit against the tax on each
9 eligible tract of agricultural land within the several
10 school districts of the state in which the levy for
11 the general school fund exceeds five four dollars and
12 forty fifteen cents per thousand dollars of assessed
13 value. The amount of the credit on each eligible
14 tract of agricultural land shall be the amount the tax
15 levied for the general school fund exceeds the amount
16 of tax which would be levied on each eligible tract of
17 agricultural land were the levy for the general school
18 fund five four dollars and forty fifteen cents per
19 thousand dollars of assessed value for the previous
20 year. However, in the case of a deficiency in the
21 family farm tax credit fund to pay the credits in
22 full, the credit on each eligible tract of
23 agricultural land in the state shall be proportionate
24 and applied as provided in this chapter.

25 Sec. 16. Section 425A.5, Code 1995, is amended to
26 read as follows:

27 425A.5 COMPUTATION BY COUNTY AUDITOR.

28 The family farm tax credit allowed each year shall
29 be computed as follows: On or before March 1, the
30 county auditor shall list by school districts all
31 tracts of agricultural land which are entitled to
32 credit, the taxable value for the previous year, the
33 budget from each school district for the previous
34 year, and the tax rate determined for the general fund
35 of the school district in the manner prescribed in
36 section 444.3 for the previous year, and if the tax
37 rate is in excess of five four dollars and forty
38 fifteen cents per thousand dollars of assessed value,
39 the auditor shall multiply the tax levy which is in
40 excess of five four dollars and forty fifteen cents
41 per thousand dollars of assessed value by the total
42 taxable value of the agricultural land entitled to
43 credit in the school district, and on or before March
44 1, certify the total amount of credit and the total
45 number of acres entitled to the credit to the
46 department of revenue and finance.

47 Sec. 17. Section 426.3, Code 1995, is amended to
48 read as follows:

49 426.3 WHERE CREDIT GIVEN.

50 The agricultural land credit fund shall be

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1 apportioned each year in the manner hereinafter
2 provided in this chapter so as to give a credit
3 against the tax on each tract of agricultural lands
4 within the several school districts of the state in
5 which the levy for the general school fund exceeds
6 five four dollars and forty fifteen cents per thousand
7 dollars of assessed value; the amount of such credit
8 on each tract of such lands shall be the amount the
9 tax levied for the general school fund exceeds the
10 amount of tax which would be levied on said the tract
11 of such lands were the levy for the general school
12 fund five four dollars and forty fifteen cents per
13 thousand dollars of assessed value for the previous
14 year, except in the case of a deficiency in the
15 agricultural land credits fund to pay said credits in
16 full, in which case the credit on each eligible tract
17 of such lands in the state shall be proportionate and
18 shall be applied as hereinafter provided in this
19 chapter.

20 Sec. 18. Section 426.6, unnumbered paragraph 1,
21 Code 1995, is amended to read as follows:

22 The agricultural land tax credit allowed each year
23 shall be computed as follows: On or before the first
24 of June the county auditor shall list by school
25 districts all tracts of agricultural lands which they
26 are entitled to credit, together with the taxable
27 value for the previous year, together with the budget
28 from each school district for the previous year, and
29 the tax rate determined for the general fund of the
30 district in the manner prescribed in section 444.3 for
31 the previous year, and if such the tax rate is in
32 excess of five four dollars and forty fifteen cents
33 per thousand dollars of assessed value, the auditor
34 shall multiply the tax levy which is in excess of five
35 four dollars and forty fifteen cents per thousand
36 dollars of assessed value by the total taxable value
37 of the agricultural lands entitled to credit in the
38 district, and on or before the first of June certify
39 the amount to the department of revenue and finance.

40 Sec. 19.

41 1. Sections 11 through 14 of this division of this
42 Act, being deemed of immediate importance, take effect
43 upon enactment, and apply to the computation of school
44 foundation property taxes payable during school budget
45 years beginning on or after July 1, 1996.

46 2. Sections 15 through 18 of this division of this
47 Act take effect January 1, 1997, and apply to the
48 computation of family farm tax credits and
49 agricultural land tax credits granted for property
50 taxes payable in school budget years beginning on or

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1 after July 1, 1997."
2 2. Title page, by striking lines 1 through 17 and
3 inserting the following: "An Act relating to taxation
4 within the state by changing the computation of the
5 inflation factors for the tax brackets and standard
6 deduction of the state individual income tax,
7 exemptions from the state inheritance tax, and
8 reducing the school district uniform levy for purposes
9 of providing tax relief and providing effective and
10 retroactive and other applicability date provisions."
By HALVORSON of Clayton

H-5523 FILED MARCH 22, 1996

*Adopted**3/27/96**(p. 1053)*

SENATE FILE 2449

H-5633

1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. By striking page 3, line 28, through page 6,
5 line 1, and inserting the following:

6 "SCHOOL FUNDING

7 Sec. ____ . Section 256B.9, Code 1995, is amended by
8 adding the following new subsection:

9 NEW SUBSECTION. 10. For the school year
10 commencing July 1, 1996, the director of the
11 department of education shall report to the school
12 budget review committee the total statewide deficit,
13 actual or estimate for the most recent school year
14 available, in costs for providing instruction for
15 children requiring special education in the categories
16 of the weighting plan established under this section,
17 and for providing services to nonpublic school
18 students pursuant to section 256.12, subsection 2.
19 The school budget review committee shall adjust the
20 weighting plan beginning with the school year
21 beginning July 1, 1996, so as to eliminate the amount
22 of the statewide deficit as reported by the director.
23 Any adjustment to weightings made under this
24 subsection shall be in addition to any adjustments
25 made pursuant to subsection 4.

26 Sec. ____ . Section 257.1, subsection 2, unnumbered
27 paragraph 2, Code Supplement 1995, is amended to read
28 as follows:

29 For the budget year commencing July 1, ~~1991~~ 1996,
30 ~~and-for-each-succeeding-budget-year~~ the regular
31 program foundation base per pupil is ~~eighty-three~~
32 ~~eighty-five~~ percent of the regular program state cost
33 per pupil, ~~except-that-the-regular-program-foundation~~
34 ~~base-per-pupil-for-the-portion-of-weighted-enrollment~~
35 ~~that-is-additional-enrollment-because-of-special~~
36 ~~education-is-seventy-nine-percent-of-the-regular~~
37 ~~program-state-cost-per-pupil.~~ For each succeeding
38 budget year, the regular program foundation base shall
39 increase one-half of one percent per year until the
40 regular program foundation base reaches ninety percent
41 of the regular program state cost per pupil. For the
42 budget year commencing July 1, ~~1991~~ 1996, ~~and-for-each~~
43 ~~succeeding-budget-year~~ the special education support
44 services foundation base is ~~seventy-nine~~ eighty-five
45 percent of the special education support services
46 state cost per pupil. It shall increase at the same
47 rate as the regular program foundation base. The
48 combined foundation base is the sum of the regular
49 program foundation base and the special education
support services foundation base.

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1 Sec. ____ . Section 257.11, unnumbered paragraph 1,
2 Code Supplement 1995, is amended to read as follows:

3 In order to provide additional funds for school
4 districts which send their resident pupils to another
5 school district or to a community college for classes,
6 which jointly employ and share the services of
7 teachers under section 280.15, which use the services
8 of a teacher employed by another school district, or
9 which jointly employ and share the services of a
10 school superintendent under section 280.15 or 273.7A,
11 have established programs for returning dropouts and
12 dropout prevention, or which have established gifted
13 and talented children programs, a supplementary
14 weighting plan for determining enrollment is adopted
15 as follows:

16 Sec. ____ . Section 257.11, Code Supplement 1995, is
17 amended by adding the following new subsections:

18 NEW SUBSECTION. 8. GIFTED AND TALENTED CHILDREN
19 PROGRAMS. School districts that have established
20 gifted and talented children programs approved
21 pursuant to sections 257.42 through 257.49 may receive
22 supplementary weighting for each pupil enrolled in the
23 program equal to two-tenths. However, the total
24 additional weighting allowed under this subsection for
25 a budget year for a school district shall not result
26 in additional funding in excess of the lesser of the
27 product of one-fifth of the district cost per pupil
28 multiplied by one-twentieth of the budget enrollment,
29 or of the amount established by the department of
30 management, as required in section 257.46, to be
31 raised from supplementary weighting.

32 NEW SUBSECTION. 9. RETURNING DROPOUTS AND DROPOUT
33 PREVENTION PROGRAMS. School districts that have
34 established returning dropouts and dropout prevention
35 programs approved pursuant to sections 257.38 through
36 257.41 may receive supplementary weighting for each
37 pupil enrolled in the program equal to two-tenths.
38 However, the total additional weighting allowed under
39 this subsection for a budget year for a school
40 district shall not result in additional funding in
41 excess of the lesser of the product of one-fifth of
42 the district cost per pupil multiplied by one-
43 twentieth of the budget enrollment, or of the amount
44 established by the department of management, as
45 required in section 257.41, to be raised from
46 supplementary weighting.

47 Sec. ____ . Section 257.20, subsection 1, Code 1995,
48 is amended to read as follows:

49 1. In order to determine the amount of
50 instructional support state aid and the amount of

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1 local funding for the instructional support program
2 for a district, the department of management shall
3 divide the total assessed valuation in the state by
4 the total budget enrollment for the budget year in the
5 state to determine a state assessed valuation per
6 pupil and shall divide the assessed valuation in each
7 district by the district's budget enrollment for the
8 budget year to determine the district assessed
9 valuation per pupil. The department of management
10 shall multiply the ratio of the state's valuation per
11 pupil to the district's valuation per pupil by twenty-
12 five hundredths and subtract that result from one to
13 determine the portion of the instructional support
14 program budget that is local funding. The remaining
15 portion of the budget shall be funded by instructional
16 support state aid. ~~However, for the budget year~~
17 ~~beginning July 1, 1992, only, the amount of state aid~~
18 ~~is three and one quarter percent less than the amount~~
19 ~~computed under this paragraph for that budget year.~~

20 Sec. _____. Section 257.20, subsection 2, paragraphs
21 a and b, Code 1995, are amended by striking the
22 paragraphs.

23 Sec. _____. Section 257.20, subsection 3, Code 1995,
24 is amended by striking the subsection.

25 Sec. _____. Section 257.38, unnumbered paragraphs 1
26 and 2, Code 1995, are amended to read as follows:

27 Boards of school districts, individually or jointly
28 with boards of other school districts, requesting to
29 use additional allowable growth receive supplementary
30 weighting for programs for returning dropouts and
31 dropout prevention, shall annually submit
32 comprehensive program plans for the programs and
33 budget costs, including requests for ~~additional~~
34 allowable growth supplementary weighting for funding
35 the programs, to the department of education as
36 provided in this chapter. The program plans shall
37 include:

38 Program plans shall identify the parts of the plan
39 that will be implemented first upon approval of the
40 application. If a district is requesting to ~~use~~
41 additional allowable growth receive supplementary
42 weighting to finance the program, it shall not
43 identify more than five percent of its budget
44 enrollment for the budget year as returning dropouts
45 and potential dropouts.

46 Sec. _____. Section 257.40, Code 1995, is amended to
47 read as follows:

48 257.40 PLANS FOR RETURNING DROPOUTS AND DROPOUT
49 PREVENTION.

50 The board of directors of a school district

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1 ~~requesting to use-additional-allowable-growth receive~~
2 ~~supplementary weighting~~ for programs for returning
3 dropouts and dropout prevention shall submit
4 applications for approval for the programs to the
5 department not later than November 1 preceding the
6 budget year during which the program will be offered.
7 The department shall review the program plans and
8 shall prior to January 15 either grant approval for
9 the program or return the request for approval with
10 comments of the department included. An unapproved
11 request for a program may be resubmitted with
12 modifications to the department not later than
13 February 1. Not later than February 15, the
14 department shall notify the department of management
15 and the school budget review committee of the names of
16 the school districts for which programs ~~using~~
17 ~~additional-allowable-growth receiving supplementary~~
18 ~~weighting~~ for funding have been approved and the
19 approved budget of each program listed separately for
20 each school district having an approved program.

21 Sec. ____ . Section 257.41, Code 1995, is amended to
22 read as follows:

23 257.41 FUNDING FOR PROGRAMS FOR RETURNING DROPOUTS
24 AND DROPOUT PREVENTION.

25 The budget of an approved program for returning
26 dropouts and dropout prevention for a school district,
27 after subtracting funds received from other sources
28 for that purpose, shall be funded annually on a basis
29 of one-fourth or more from the district cost of the
30 school district and up to three-fourths by ~~an-increase~~
31 ~~in-allowable-growth-as-defined-in-section-257-8~~
32 ~~receipt of supplementary weighting as provided in~~
33 ~~section 257.11, subsection 9.~~ Annually, the
34 department of management shall establish a ~~modified~~
35 ~~allowable-growth~~ the amount of additional funding
36 needed to be raised from the supplementary weighting
37 for each such district equal to the difference between
38 the approved budget for the program for returning
39 dropouts and dropout prevention for that district and
40 the sum of the amount funded from the district cost of
41 the school district plus funds received from other
42 sources.

43 Sec. ____ . Section 257.42, unnumbered paragraph 1,
44 Code 1995, is amended to read as follows:

45 Boards of school districts, individually or jointly
46 with the boards of other school districts, requesting
47 to ~~use-additional-allowable-growth receive~~
48 ~~supplementary weighting~~ for gifted and talented
49 children programs, may annually submit program plans
50 for gifted and talented children programs and budget

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1 costs, including requests for ~~additional-allowable~~
2 growth supplementary weighting for funding the
3 programs, to the department of education and to the
4 applicable gifted and talented children advisory
5 council, if an advisory council has been established,
6 as provided in this chapter.

7 Sec. _____. Section 257.42, unnumbered paragraphs 4
8 and 5, Code 1995, are amended to read as follows:

9 The department of education shall adopt rules under
10 chapter 17A relating to the administration of sections
11 257.42 through 257.49. The rules shall prescribe the
12 format of program plans submitted under section 257.43
13 and shall require that programs fulfill specified
14 objectives. The department shall encourage and assist
15 school districts to provide programs for gifted and
16 talented children whether or not ~~additional-allowable~~
17 growth supplementary weighting is requested under this
18 chapter.

19 The department may request that the staff of the
20 auditor of state conduct an independent program audit
21 to verify that the gifted and talented children
22 programs funded by ~~additional-allowable-growth~~
23 supplementary weighting conform to a district's
24 program plans.

25 Sec. _____. Section 257.45, subsection 1, Code 1995,
26 is amended to read as follows:

27 1. The board of directors of a school district
28 requesting to ~~use-additional-allowable-growth~~ receive
29 supplementary weighting for gifted and talented
30 children programs shall submit applications for
31 approval for the programs to the department not later
32 than November 1 preceding the fiscal year during which
33 the program will be offered. The board shall also
34 submit a copy of the program plans to the gifted and
35 talented children advisory council, if an advisory
36 council has been established. The department shall
37 review the program plans and shall prior to January 15
38 either grant approval for the program or return the
39 request for approval with comments of the department
40 included. Any unapproved request for a program may be
41 resubmitted with modifications to the department not
42 later than a date established by the department. Not
43 later than February 15 the department shall notify the
44 department of management and the school budget review
45 committee of the names of the school districts for
46 which gifted and talented children programs ~~using~~
47 additional-allowable-growth receiving supplementary
48 weighting for funding have been approved and the
49 approved budget of each program listed separately for
50 each school district having an approved program.

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1 Sec. ____ . Section 257.46, Code 1995, is amended to
2 read as follows:

3 257.46 FUNDING.

4 The budget of an approved gifted and talented
5 children program for a school district, after
6 subtracting funds received from other sources for that
7 purpose, shall be funded annually on a basis of one-
8 fourth or more from the district cost of the school
9 district and up to three-fourths by ~~an-increase-in~~
10 ~~allowable-growth-as-defined-in-section-257-8~~ receipt
11 of supplementary weighting as provided in section
12 257.11, subsection 8. The approved budget for a

13 gifted and talented children program shall not exceed
14 an amount equal to one and twenty-four-hundredths
15 percent of the district cost per pupil of the district
16 for the base year multiplied by the budget enrollment
17 of the district for the budget year. Annually, the
18 department of management shall establish ~~a-modified~~
19 ~~allowable-growth~~ the amount of additional funding
20 needed to be raised from the supplementary weighting
21 for each such district equal to the difference between
22 the approved budget for the gifted and talented
23 children program for that district and the sum of the
24 amount funded from the district cost of the school
25 district plus funds received from other sources.

26 If any portion of the gifted and talented program
27 budget remains unexpended at the end of the budget
28 year, the part of the remainder equal to the
29 proportion of the original budget which was funded by
30 ~~an-increase-in-allowable-growth,-as-defined-in-section~~
31 ~~257-8,~~ supplementary weightings shall be carried over
32 to the subsequent budget year and added to the gifted
33 and talented program budget for that year.

34 Sec. ____ . This division of this Act, being deemed
35 of immediate importance, takes effect upon enactment,
36 and applies to the computation of school funding for
37 school budget years commencing on or after July 1,
38 1996.""

39 2. Page 6, by striking line 8 and inserting the
40 following: "providing additional state aid for
41 purposes".

By SHOULTZ of Black Hawk
OLLIE of Clinton

H-5633 FILED MARCH 26, 1996

Lost
3/27/96
(p. 1048)

SENATE FILE 2449

H-5641

1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 3, by inserting after line 26 the
5 following:

6 "DIVISION
7 ABATEMENT OF TAXES

8 Sec. ____ . NEW SECTION. 427.8A PETITION FOR
9 SUSPENSION AND ABATEMENT OF TAXES DUE TO A DISASTER.

10 The board of supervisors may suspend or abate all
11 or part of taxes on a parcel of private property in
12 order to prevent or abate a public nuisance and to
13 encourage repair or reconstruction of private property
14 damaged due to a disaster. The owner of property
15 damaged due to a disaster may file a petition, duly
16 sworn to, with the board of supervisors, stating the
17 circumstances of the disaster and giving a statement
18 of parcels, as defined in section 445.1, damaged by
19 the disaster, and other information as the board may
20 require. The board of supervisors may order the
21 county treasurer to suspend the collection of the
22 taxes, special assessments, and rates or charges,
23 including interest, fees, and costs, which are
24 assessed against the petitioner or the petitioner's
25 estate for the current year and those unpaid for prior
26 years. If the owner agrees to repair the damage or
27 reconstruct the property, the board may also abate
28 future taxes, special assessments, and rates or
29 charges, including interest, fees, and costs for a
30 period not to exceed five years. The petition, when
31 approved, shall be filed by March 1 of the current tax
32 year with the treasurer.

33 For purposes of this section, "disaster" means
34 manmade and natural occurrences including, but not
35 limited to, fire, flood, earthquake, tornado, or
36 windstorm which results in damage exceeding fifty
37 percent of the property's assessed value."

38 2. Page 6, line 7, by inserting after the word
39 "tax," the following: "allowing for the suspension or
40 abatement of property taxes as a result of a
41 disaster,".

By SHOULTZ of Black Hawk

H-5641 FILED MARCH 26, 1996

*Lost 3/27/96
(p. 1040)*

SENATE FILE 2449

H-5630

1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:
4 1. Page 1, by striking line 6 and inserting the
5 following: "INCOME TAXATION".
6 2. Page 2, by inserting after line 16 the
7 following:
8 "Sec. ____ . Section 422.7, Code Supplement 1995, is
9 amended by adding the following new subsection:
10 NEW SUBSECTION. 35. Subtract the portion of the
11 special assessment installment paid during the tax
12 year which constitutes interest, as determined by the
13 director."
14 3. Page 2, line 21, by inserting after the figure
15 "1996." the following: "This division of this Act
16 applies retroactively to January 1, 1996, to tax years
17 beginning on or after that date."
18 4. Page 6, line 6, by striking the word "of" and
19 inserting the following: "and allowing an interest
20 deduction for special assessments for".

By FALLON of Polk

H-5630 FILED MARCH 26, 1996

Lost 3/27/96
(p. 1022)

SENATE FILE 2449

H-5653

1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 3, by inserting after line 26 the
5 following:

6 "DIVISION
7 PROPERTY TAX CREDITS FUNDING
8 Sec. ____ . Section 8.59, Code 1995, is amended to
9 read as follows:

10 8.59 APPROPRIATIONS FREEZE.

11 Notwithstanding contrary provisions of the Code,
12 the amounts appropriated under the applicable sections
13 of the Code for fiscal years commencing on or after
14 July 1, 1993, are limited to those amounts expended
15 under those sections for the fiscal year commencing
16 July 1, 1992. If an applicable section appropriates
17 moneys to be distributed to different recipients and
18 the operation of this section reduces the total amount
19 to be distributed under the applicable section, the
20 moneys shall be prorated among the recipients. As
21 used in this section, "applicable sections" means the
22 following sections: 53.50, 229.35, 230.8, 230.11,
23 405A.8, 411.20, ~~425.17~~-~~425.39~~,-~~426A.17~~ 663.44, and
24 822.5.

25 Sec. ____ . Section 425.40, subsection 1, Code 1995,
26 is amended to read as follows:

27 1. A low-income tax credit and reimbursement fund
28 is created. There is appropriated annually from the
29 general fund of the state to the department of revenue
30 and finance to be credited to the low-income tax
31 credit and reimbursement fund an amount sufficient to
32 implement this division."

33 2. Page 6, line 7, by inserting after the word
34 "tax," the following: "fully funding the homestead
35 and military tax credits and the low-income credit and
36 reimbursement programs,".

- | | |
|-----------------------|-------------------------|
| By BERNAU of Story | MORELAND of Wapello |
| WITT of Black Hawk | CATALDO of Polk |
| WEIGEL of Chickasaw | BAKER of Polk |
| DODERER of Johnson | OSTERHAUS of Jackson |
| WARNSTADT of Woodbury | SHOULTZ of Black Hawk |
| McCOY of Polk | JOCHUM of Dubuque |
| BURNETT of Story | TAYLOR of Linn |
| BELL of Jasper | SCHRADER of Marion |
| MASCHER of Johnson | LARKIN of Lee |
| KREIMAN of Davis | MERTZ of Kossuth |
| HARPER of Black Hawk | MUNDIE of Webster |
| BRAND of Benton | NELSON of Pottawattamie |
| OLLIE of Clinton | DREES of Carroll |
| COHOON of Des Moines | KOENIGS of Mitchell |
| BRAMMER of Linn | MURPHY of Dubuque |
| O'BRIEN of Boone | MYERS of Johnson |
| FALLON of Polk | CONNORS of Polk |

H-5653 FILED MARCH 26, 1996

Lost 3/27/96 (p. 1038)

SENATE FILE 2449

H-5652

1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 1, line 6, by striking the word
5 "INDEXATION".

6 2. Page 2, by inserting after line 16 the
7 following:

8 "Sec. 100. NEW SECTION. 422.120 LIVESTOCK
9 PRODUCTION TAX CREDIT ALLOWED.

10 1. a. There is allowed a state tax credit for
11 livestock production operations located in the state.
12 The amount of the credit equals ten cents for each
13 corn equivalent consumed by the livestock in the
14 production operation as specified under this section.
15 The credit shall be refunded as provided in section
16 422.122.

17 b. The credit shall be available to an individual
18 or corporate taxpayer who owns livestock and who
19 receives, or accrues in the case of an accrual-basis
20 taxpayer, more than one half of the taxpayer's gross
21 income from farming or ranching operations during the
22 tax year. Gross income from farming or ranching is
23 the amount reported as gross income on schedule F, or
24 the equivalent schedule, of the taxpayer's income tax
25 return, the total gains from sales of breeding
26 livestock, and, if applicable, the taxpayer's
27 distributive share of income from farming or ranching
28 from a partnership, limited liability company,
29 subchapter S corporation, or an estate or trust. To
30 determine whether a taxpayer receives more than one-
31 half of gross income from farming or ranching, the
32 taxpayer's amount of gross income from farming or
33 ranching shall be divided by the taxpayer's total
34 gross income as defined in section 61 of the federal
35 Internal Revenue Code.

36 2. The amount of the credit per operation is
37 determined by adding together for each head of
38 livestock in the operation the product of ten cents
39 times the number of corn equivalents consumed by that
40 head of livestock. The amount of livestock production
41 credit per operation per tax year shall not exceed
42 three thousand dollars and the amount of livestock
43 production credit per taxpayer per tax year shall not
44 exceed three thousand dollars.

45 The maximum amount of corn equivalents for a head
46 of livestock in a production operation is the
47 following:

| | |
|-----------------------------|-------------------|
| 48 a. Hog operations: | Corn equivalents: |
| 49 (1) Farrow to finish | 13.0 |
| 50 (2) Farrow to feeder pig | 2.6 |

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| | | |
|----|---------------------------|-------|
| 1 | (3) Finishing feeder pigs | 10.4 |
| 2 | b. Poultry operations: | |
| 3 | (1) Layers | 0.88 |
| 4 | (2) Turkeys | 1.5 |
| 5 | (3) Broilers | 0.15 |
| 6 | c. Beef operations: | |
| 7 | (1) Cow-calf | 111.5 |
| 8 | (2) Stocker | 41.5 |
| 9 | (3) Feedlot | 75.0 |
| 10 | (4) Dairy | 350.0 |
| 11 | d. Sheep operations: | |
| 12 | (1) Ewe flock | 20.5 |
| 13 | (2) Feedlot | 4.1 |

14 3. If the livestock operation is carried on partly
 15 within and partly without the state, the portion of
 16 the operation attributable to this state shall be
 17 determined pursuant to rules adopted by the
 18 department. The department may adjust the allocation
 19 upon request of the taxpayer in order to reflect the
 20 actual livestock operation carried on within this
 21 state.

22 4. An individual may claim the livestock
 23 production tax credit allowed a partnership, limited
 24 liability company, subchapter S corporation, or estate
 25 or trust electing to have the income taxed directly to
 26 the individual. The amount claimed by the individual
 27 shall be based upon the pro rata share of the
 28 individual's earning of the partnership, limited
 29 liability company, subchapter S corporation, or estate
 30 or trust.

31 5. A fraudulent claim for a credit refund under
 32 this division shall cause the forfeiture of any right
 33 or interest to a tax credit refund in subsequent tax
 34 years under this division.

35 Sec. 101. NEW SECTION. 422.121 APPROPRIATION.

36 There is appropriated annually from the general
 37 fund of the state ten million dollars to refund the
 38 credits allowed under this division.

39 Sec. 102. NEW SECTION. 422.122 REFUND OF

40 LIVESTOCK PRODUCTION CREDIT CLAIMS.

41 1. For the tax year the total amount of livestock
 42 production credit refund claims that shall be paid
 43 shall not exceed ten million dollars. If the total
 44 dollar amount of the refund claims exceeds that
 45 amount, each claim shall be paid an amount equal to
 46 ten million dollars divided by the total number of
 47 claims, not to exceed the amount of the taxpayer's
 48 claim. Remaining funds shall be prorated among those
 49 claims not paid in full in the proportion that each
 50 such claim bears to the total amount of such claims

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1 not paid in full.

2 2. In the case where refund claims are not paid in
3 full, the amount of the refund to which the taxpayer
4 is entitled is the amount computed in subsection 1,
5 and paid to the taxpayer, and the taxpayer is not
6 entitled to any unpaid portion of a claim and is not
7 entitled to carry forward or backward to another tax
8 year any unpaid portion of a claim. A taxpayer shall
9 not use a refund as an estimated payment for the
10 succeeding tax year.

11 3. A taxpayer must file a claim for refund within
12 ten months from the close of the taxpayer's tax year.
13 An extension for filing shall not be allowed. The
14 department shall determine by February 28 of the
15 calendar year following the calendar year in which the
16 claims were filed if the total amount of claims for
17 refund exceeds ten million dollars for the tax year.
18 If the claim is not payable on February 28 because the
19 taxpayer is a fiscal year filer, the claim shall be
20 considered as a claim filed for the following tax
21 year.

22 4. A claim for refund shall be made on claim forms
23 to be made available by the department. In order for
24 a taxpayer to have a valid refund claim, the taxpayer
25 must supply legible copies of documents the director
26 deems necessary to verify the amount of the refund."

27 3. Page 2, by inserting after line 26 the
28 following:

29 "Sec. ____ . APPLICABILITY. Sections 100 through
30 102 of this division of this Act apply to tax years
31 beginning on or after January 1, 1997."

32 4. Page 6, line 9, by inserting after the word
33 "relief" the following: ", providing a livestock
34 production income tax credit,".

35 5. By renumbering as necessary.

By WISE of Lee

H-5652 FILED MARCH 26, 1996

Lost 3/27/96
(p. 1022)

SENATE FILE 2449

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1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 2, by inserting after line 26 the
5 following:

6 "DIVISION
7 INCOME AND TOBACCO TAXES

8 Sec. 55. Section 142B.6, Code 1995, is amended to
9 read as follows:

10 142B.6 CIVIL PENALTY FOR VIOLATION -- UNIFORM
11 APPLICATION ENFORCEMENT.

12 A person who smokes in those areas prohibited in
13 section 142B.2, or who violates section 142B.4, shall
14 pay a civil fine pursuant to section 805.8, subsection
15 11, for each violation.

16 Judicial magistrates shall hear and determine
17 violations of this chapter. The civil penalties paid
18 pursuant to this chapter shall be deposited in the
19 county treasury.

20 ~~Enforcement of this chapter shall be implemented in~~
21 ~~an equitable manner throughout the state. For the~~
22 ~~purpose of equitable and uniform implementation,~~
23 ~~application, and enforcement of state and local laws~~
24 ~~and regulations, the provisions of this chapter shall~~
25 ~~supersede any local law or regulation which is~~
26 ~~inconsistent with or conflicts with the provisions of~~
27 ~~this chapter. The Iowa department of public health~~
28 shall adopt rules to enforce this chapter.

29 Sec. 56. NEW SECTION. 142C.1 LEGISLATIVE
30 FINDINGS -- CIGARETTE AND TOBACCO PRODUCTS.

31 Following an analysis of data regarding cigarettes
32 and tobacco products and the addictive nature of the
33 nicotine contained in these products which was
34 provided by the Iowa department of public health, the
35 United States environmental protection agency, the
36 United States public health service, the world health
37 organization, the American cancer society, the
38 American heart association, the American lung
39 association, the American medical association, the
40 American dental association, the American public
41 health association, the national cancer institute, and
42 the international agency for research on cancer, the
43 general assembly finds and declares all of the
44 following:

45 1. That cigarettes and tobacco products, with
46 their inherent and supplemented quantities of
47 nicotine, are highly addictive and that use of these
48 products threatens the health and lives of Iowans.

49 2. That environmental tobacco smoke is a group A
50 carcinogen known to cause lung cancer in nonsmokers as

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1 well as in smokers.

2 3. That tobacco and resultant environmental
3 tobacco smoke are the highest causative agents in
4 increased mortality and morbidity in the state.

5 4. That the federal Americans with Disabilities
6 Act specifies that persons sensitive to tobacco smoke,
7 including persons with asthma, are "handicapped
8 persons" and that businesses are required to make
9 reasonable accommodations to allow handicapped persons
10 access to offices and workplaces.

11 5. That a principal manufacturer of tobacco
12 products has admitted to these findings, has agreed to
13 a financial settlement based upon the damage caused by
14 the effects of these products, and has agreed to limit
15 advertising in accordance with the limitations
16 established by the United States environmental
17 protection agency.

18 6. That based upon all of the above, the general
19 assembly declares the use of cigarettes and tobacco
20 products to be an immediate health emergency of
21 epidemic proportions and a menace as an entry-level
22 drug in the youth population of the state and will
23 enact legislation to address this public health
24 problem.

25 Sec. 57. NEW SECTION. 249A.30 RECOVERY OF
26 MEDICAL ASSISTANCE EXPENDITURE -- CIGARETTE AND
27 TOBACCO PRODUCTS -- RELATED MEDICAL EXPENSES BY
28 RESIDENT RECIPIENTS.

29 1. Notwithstanding chapter 668, the attorney
30 general shall institute a civil action on behalf of
31 the state against any manufacturer of cigarettes or
32 other tobacco products to recover the full amount of
33 medical assistance provided by the state to a resident
34 of the state for the payment of medical services which
35 are reasonably attributable to the use of cigarettes
36 or tobacco products and all reasonable expenses
37 associated with instituting the action.

38 2. In determining liability in an action under
39 this section, all of the following shall apply:

40 a. Any manufacturer of cigarettes or other tobacco
41 products shall be strictly liable for the medical
42 expenses reasonably attributable to the use of the
43 manufacturer's product, without regard to any
44 negligence, intent, warnings, or other conduct or
45 knowledge on the part of the manufacturer.

46 b. The state may recover medical expenses, without
47 regard to the defenses of assumption of the risk,
48 contributory or comparative negligence, or other
49 defenses which might be asserted.

50 c. Any action instituted by the attorney general

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1 is independent of any rights or causes of action of
2 any individual.

3 3. In determining the extent of the liability of
4 any manufacturer under this section, the court shall
5 apply the following evidentiary presumptions:

6 a. The ratio of the expenses attributable to the
7 use of cigarettes or tobacco products produced by any
8 manufacturer to the expenses of all manufacturers is
9 presumed to be equivalent to the ratio of the sales by
10 the manufacturer within the state during the most
11 recent year for which data are available to the sales
12 of all manufacturers for that year.

13 b. The medical expenses for individuals
14 attributable to the use of cigarettes or tobacco
15 products shall be based on reliable estimates for the
16 class of persons affected, rather than proof of the
17 cause of expenses in the case of any particular
18 individual.

19 c. Estimates of medical expenses shall be based on
20 epidemiological, scientific, survey, and other data,
21 determined by the director of public health to be
22 reliable and reasonably available. The Iowa
23 department of public health shall adopt rules to
24 specify the methodology for making the estimates in
25 any action under this section.

26 d. A defendant shall have the opportunity to rebut
27 any presumption by clear and convincing evidence,
28 provided that the court shall take reasonable steps to
29 ensure that determination of damages is concluded in a
30 timely and expeditious manner and that no party to the
31 action is permitted to unduly delay the conclusion of
32 the action.

33 4. For the purposes of this section, "cigarette"
34 and "tobacco products" mean cigarette and tobacco
35 products as defined in section 453A.1.

36 Sec. 58. Section 422.9, subsection 1, Code
37 Supplement 1995, is amended to read as follows:

38 1. An optional standard deduction, after deduction
39 of federal income tax, equal to ~~one~~ two thousand ~~two~~
40 ~~four~~ hundred ~~thirty~~ sixty dollars for a married person
41 who files separately or a single person or equal to
42 ~~three~~ six thousand ~~thirty~~ sixty dollars for a husband
43 and wife who file a joint return, a surviving spouse,
44 or an unmarried head of household. The optional
45 standard deduction shall not exceed the amount
46 remaining after deduction of the federal income tax.

47 Sec. 59. Section 422B.1, subsections 3, 4, 5, 6,
48 8, and 9, Code Supplement 1995, are amended to read as
49 follows:

50 3. A local option tax shall be imposed only after

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1 an election at which a majority of those voting on the
2 question favors imposition and shall then be imposed
3 until repealed as provided in subsection 6, paragraph
4 "a". If the tax is a local vehicle tax imposed by a
5 county, it shall apply to all incorporated and
6 unincorporated areas of the county. If the tax is a
7 local sales and services tax or a local cigarette and
8 tobacco tax imposed by a county, it shall only apply
9 to those incorporated areas and the unincorporated
10 area of that county in which a majority of those
11 voting in the area on the tax favors its imposition.
12 For purposes of the local sales and services tax or a
13 local cigarette and tobacco tax, all cities contiguous
14 to each other shall be treated as part of one
15 incorporated area and the tax would be imposed in each
16 of those contiguous cities only if the majority of
17 those voting in the total area covered by the
18 contiguous cities favors its imposition. For purposes
19 of the local sales and services tax or a local
20 cigarette and tobacco tax, a city is not contiguous to
21 another city if the only road access between the two
22 cities is through another state.

23 4. a. A county board of supervisors shall direct
24 within thirty days the county commissioner of
25 elections to submit the question of imposition of a
26 local vehicle tax, or a local sales and services tax,
27 or a local cigarette and tobacco tax to the registered
28 voters of the incorporated and unincorporated areas of
29 the county upon receipt of a petition, requesting
30 imposition of a local vehicle tax, or a local sales
31 and services tax, or a local cigarette and tobacco
32 tax, signed by eligible electors of the whole county
33 equal in number to five percent of the persons in the
34 whole county who voted at the last preceding state
35 general election. In the case of a local vehicle tax,
36 the petition requesting imposition shall specify the
37 rate of tax and the classes, if any, that are to be
38 exempt. If more than one valid petition is received,
39 the earliest received petition shall be used.

40 b. The question of the imposition of a local sales
41 and services tax or a local cigarette and tobacco tax
42 shall be submitted to the registered voters of the
43 incorporated and unincorporated areas of the county
44 upon receipt by the county commissioner of elections
45 of the motion or motions, requesting such submission,
46 adopted by the governing body or bodies of the city or
47 cities located within the county or of the county, for
48 the unincorporated areas of the county, representing
49 at least one half of the population of the county.
50 Upon adoption of such motion, the governing body of

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1 the city or county, for the unincorporated areas,
2 shall submit the motion to the county commissioner of
3 elections and in the case of the governing body of the
4 city shall notify the board of supervisors of the
5 adoption of the motion. The county commissioner of
6 elections shall keep a file on all the motions
7 received and, upon reaching the population
8 requirements, shall publish notice of the ballot
9 proposition concerning the imposition of the local
10 sales and services tax or a local cigarette and
11 tobacco tax. A motion ceases to be valid at the time
12 of the holding of the regular election for the
13 election of members of the governing body which
14 adopted the motion. The county commissioner of
15 elections shall eliminate from the file any motion
16 that ceases to be valid. The manner provided under
17 this paragraph for the submission of the question of
18 imposition of a local sales and services tax or a
19 local cigarette and tobacco tax is an alternative to
20 the manner provided in paragraph "a".

21 5. The county commissioner of elections shall
22 submit the question of imposition of a local option
23 tax at a state general election or at a special
24 election held at any time other than the time of a
25 city regular election. The election shall not be held
26 sooner than sixty days after publication of notice of
27 the ballot proposition. The ballot proposition shall
28 specify the type and rate of tax and in the case of a
29 vehicle tax the classes that will be exempt and in the
30 case of a local sales and services tax or a local
31 cigarette and tobacco tax the date it will be imposed.
32 The ballot proposition shall also specify the
33 approximate amount of local option tax revenues that
34 will be used for property tax relief and shall contain
35 a statement as to the specific purpose or purposes for
36 which the revenues shall otherwise be expended. If
37 the county board of supervisors decides under
38 subsection 6 to specify a date on which the local
39 option sales and services tax or a local cigarette and
40 tobacco tax shall automatically be repealed, the date
41 of the repeal shall also be specified on the ballot.
42 The rate of the vehicle tax shall be in increments of
43 one dollar per vehicle as set by the petition seeking
44 to impose the tax. The rate of a local sales and
45 services tax shall not be more than one percent as set
46 by the governing body. The rate of the cigarette and
47 tobacco tax shall not be more than ten percent as set
48 by the governing body. The state commissioner of
49 elections shall establish by rule the form for the
50 ballot proposition which form shall be uniform

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1 throughout the state.
2 6. a. If a majority of those voting on the
3 question of imposition of a local option tax favor
4 imposition of a local option tax, the governing body
5 of that county shall impose the tax at the rate
6 specified for an unlimited period. However, in the
7 case of a local sales and services tax or a local
8 cigarette and tobacco tax, the county shall not impose
9 the tax in any incorporated area or the unincorporated
10 area if the majority of those voting on the tax in
11 that area did not favor its imposition. For purposes
12 of the local sales and services tax or a local
13 cigarette and tobacco tax, all cities contiguous to
14 each other shall be treated as part of one
15 incorporated area and the tax shall be imposed in each
16 of those contiguous cities only if the majority of
17 those voting on the tax in the total area covered by
18 the contiguous cities favored its imposition. The
19 local option tax may be repealed or the rate increased
20 or decreased or the use thereof changed after an
21 election at which a majority of those voting on the
22 question of repeal or rate or use change favored the
23 repeal or rate or use change. The election at which
24 the question of repeal or rate or use change is
25 offered shall be called and held in the same manner
26 and under the same conditions as provided in
27 subsections 4 and 5 for the election on the imposition
28 of the local option tax. However, in the case of a
29 local sales and services tax or a local cigarette and
30 tobacco tax where the tax has not been imposed
31 countywide, the question of repeal or imposition or
32 rate or use change shall be voted on only by the
33 registered voters of the areas of the county where the
34 tax has been imposed or has not been imposed, as
35 appropriate. However, the governing body of the
36 incorporated area or unincorporated area where the
37 local sales and services tax or a local cigarette and
38 tobacco tax is imposed may, upon its own motion,
39 request the county commissioner of elections to hold
40 an election in the incorporated or unincorporated
41 area, as appropriate, on the question of the change in
42 use of local sales and services tax revenues. The
43 election may be held at any time but not sooner than
44 sixty days following publication of the ballot
45 proposition. If a majority of those voting in the
46 incorporated or unincorporated area on the change in
47 use favor the change, the governing body of that area
48 shall change the use to which the revenues shall be
49 used. The ballot proposition shall list the present
50 use of the revenues, the proposed use, and the date

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1 after which revenues received will be used for the new
2 use.

3 When submitting the question of the imposition of a
4 local sales and services tax or a local cigarette and
5 tobacco tax, the county board of supervisors may
6 direct that the question contain a provision for the
7 repeal, without election, of the local sales and
8 services tax or a local cigarette and tobacco tax on a
9 specific date, which date shall be the end of a
10 calendar quarter.

11 b. Within ten days of the election at which a
12 majority of those voting on the question favors the
13 imposition, repeal, or change in the rate of a local
14 option tax, the governing body shall give written
15 notice to the director of revenue and finance or, in
16 the case of a local vehicle tax, to the director of
17 the department of transportation, of the result of the
18 election.

19 8. Local option taxes authorized to be imposed as
20 provided in this chapter are a local sales and
21 services tax, a local cigarette and tobacco tax, and a
22 local vehicle tax. The rate of the tax shall be in
23 increments of one dollar per vehicle for a vehicle tax
24 as set on the petition seeking to impose the vehicle
25 tax. The rate of a local sales and services tax shall
26 not be more than one percent as set by the governing
27 body. The rate of the local cigarette and tobacco tax
28 shall not be more than ten percent as set by the
29 governing body.

30 9. In a county that has imposed a local option
31 sales and services tax or a local option cigarette and
32 tobacco tax, the board of supervisors shall,
33 notwithstanding any contrary provision of this
34 chapter, repeal the local option ~~sales-and-services~~
35 tax in the unincorporated areas or in an incorporated
36 city area in which the tax has been imposed upon
37 adoption of its own motion for repeal in the
38 unincorporated areas or upon receipt of a motion
39 adopted by the governing body of that incorporated
40 city area requesting repeal. The board of supervisors
41 shall repeal the local option ~~sales-and-services~~ tax
42 effective at the end of the calendar quarter during
43 which it adopted the repeal motion or the motion for
44 the repeal was received. For purposes of this
45 subsection, incorporated city area includes an
46 incorporated city which is contiguous to another
47 incorporated city.

48 Sec. 60. NEW SECTION. 422B.5 LOCAL CIGARETTE AND
49 TOBACCO TAX.

50 A local cigarette and tobacco tax at the rate of

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1 not more than ten percent may be imposed by a county
2 on the gross receipts from sales of cigarettes and
3 tobacco products sold at retail by a retailer as
4 defined under chapter 422, division IV. A local
5 cigarette and tobacco tax shall be imposed only if the
6 retailer is required under section 422.53 to have a
7 state tax permit to collect the state sales and
8 services tax. A local cigarette and tobacco tax is
9 applicable to transactions within those incorporated
10 and unincorporated areas of the county where it is
11 imposed and shall be collected by all persons required
12 to collect state gross receipts taxes. All cities
13 contiguous to each other shall be treated as part of
14 one incorporated area and the tax would be imposed in
15 each of those contiguous cities only if the majority
16 of those voting in the total area covered by the
17 contiguous cities favor its imposition.

18 The amount of the sale, for purposes of determining
19 the amount of the local cigarette and tobacco tax,
20 does not include the amount of any state gross
21 receipts taxes but does include the amount of any tax
22 imposed under chapter 453A.

23 A tax permit other than the state tax permit
24 required under section 422.53 shall not be required by
25 local authorities.

26 Sec. 61. NEW SECTION. 422B.6 ADMINISTRATION.

27 A local cigarette and tobacco tax shall be imposed
28 either January 1, April 1, July 1 or October 1
29 following the notification of the director of revenue
30 and finance.

31 A local cigarette and tobacco tax shall be repealed
32 only on March 31, June 30, September 30, or December
33 31. However, a local cigarette and tobacco tax shall
34 not be repealed before the tax has been in effect for
35 one year. At least forty days before the imposition
36 or repeal of the tax, a county shall provide notice of
37 the action by certified mail to the director of
38 revenue and finance.

39 The director of revenue and finance shall
40 administer a local cigarette and tobacco tax as nearly
41 as possible in conjunction with the administration of
42 state gross receipts tax laws. The director shall
43 provide appropriate forms or provide on the regular
44 state tax forms for reporting local cigarette and
45 tobacco tax liability.

46 The ordinance of a county board of supervisors
47 imposing a local cigarette and tobacco tax shall adopt
48 by reference the applicable provisions of the
49 appropriate sections of chapter 422, division IV. All
50 powers and requirements of the director to administer

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1 the state gross receipts tax law are applicable to the
2 administration of a local cigarette and tobacco tax
3 law, including but not limited to, the provisions of
4 sections 422.25, subsection 4, 422.30, 422.48 to
5 422.52, 422.54 to 422.58, 422.67, 422.68, 422.69,
6 subsection 1, and 422.70 to 422.75. Local officials
7 shall confer with the director of revenue and finance
8 for assistance in drafting the ordinance imposing a
9 local cigarette and tobacco tax. A certified copy of
10 the ordinance shall be filed with the director as soon
11 as possible after passage.

12 The director, in consultation with local officials,
13 shall collect and account for a local cigarette and
14 tobacco tax. The director shall certify each quarter
15 the amount of local cigarette and tobacco tax receipts
16 and any interest and penalties to be credited to the
17 "local cigarette and tobacco tax fund" established in
18 the office of the treasurer of state.

19 All local tax moneys and interest and penalties
20 received or refunded one hundred eighty days or more
21 after the date on which the county repeals its local
22 cigarette and tobacco tax shall be deposited in or
23 withdrawn from the state general fund.

24 Sec. 62. NEW SECTION. 422B.7 PAYMENT TO LOCAL
25 GOVERNMENTS.

26 1. The director shall credit the local cigarette
27 and tobacco tax receipts and interest and penalties
28 from the tax imposed in the unincorporated area of a
29 county to the county's account in the local cigarette
30 and tobacco tax fund and from the tax imposed in the
31 unincorporated area of a city to the city's account in
32 the local cigarette and tobacco tax fund. If the
33 director is unable to determine from which county any
34 of the receipts were collected, those receipts shall
35 be allocated among the possible counties based on
36 allocation rules adopted by the director.

37 2. a. The director of revenue and finance within
38 fifteen days of the beginning of each fiscal year
39 shall send to each city or county where the local
40 option tax is imposed, an estimate of the amount of
41 tax moneys each city or county will receive for the
42 year and for each quarter of the year. At the end of
43 each quarter, the director may revise the estimates
44 for the year and remaining quarters.

45 b. The director of revenue and finance shall remit
46 ninety percent of the estimate tax receipts for the
47 city or county to the city or county after the end of
48 each quarter no later than the following dates:

49 November 10, February 10, May 10, and August 10.

50 c. The director of revenue and finance shall remit

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1 a final payment of the remainder of tax moneys due the
2 city or county for the fiscal year before the due date
3 for the payment of the first quarter of the next
4 fiscal year. If an overpayment has resulted during
5 the previous fiscal year, the first payment of the new
6 fiscal year shall be adjusted to reflect any
7 overpayment.

8 3. Local cigarette and tobacco tax moneys received
9 by a city or county shall be expended by the city or
10 county for the purpose of educating minors on the
11 addictiveness and harmful effects of cigarettes and
12 tobacco products and enforcing federal, state, and
13 local cigarette and tobacco laws.

14 Sec. 63. Section 422B.8, unnumbered paragraph 1,
15 Code Supplement 1995, is amended to read as follows:
16 A local sales and services tax at the rate of not
17 more than one percent may be imposed by a county on
18 the gross receipts taxed by the state under chapter
19 422, division IV. A local sales and services tax
20 shall be imposed on the same basis as the state sales
21 and services tax and may not be imposed on the sale of
22 any property or on any service not taxed by the state,
23 except the tax shall not be imposed on the gross
24 receipts from the sale of motor fuel or special fuel
25 as defined in chapter 452A, on the gross receipts from
26 the sale of cigarettes and tobacco products as defined
27 in chapter 453A during the period of local cigarette
28 and tobacco tax is imposed, on the gross receipts from
29 the rental of rooms, apartments, or sleeping quarters
30 which are taxed under chapter 422A during the period
31 the hotel and motel tax is imposed, on the gross
32 receipts from the sale of natural gas or electric
33 energy in a city or county where the gross receipts
34 are subject to a franchise fee or user fee during the
35 period the franchise or user fee is imposed, on the
36 gross receipts from the sale of equipment by the state
37 department of transportation, and on the gross
38 receipts from the sale of a lottery ticket or share in
39 a lottery game conducted pursuant to chapter 99E. A
40 local sales and services tax is applicable to
41 transactions within those incorporated and
42 unincorporated areas of the county where it is imposed
43 and shall be collected by all persons required to
44 collect state gross receipts taxes. All cities
45 contiguous to each other shall be treated as part of
46 one incorporated area and the tax would be imposed in
47 each of those contiguous cities only if the majority
48 of those voting in the total area covered by the
49 contiguous cities favor its imposition.

50 Sec. 64. Section 453A.1, subsections 3 and 4, Code
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1 1995, are amended by striking the subsections.

2 Sec. 65. Section 453A.2, Code 1995, is amended by
3 adding the following new subsection:

4 NEW SUBSECTION. 5. A violation of subsection 1 is
5 a violation of section 714.16, subsection 2, paragraph
6 "a".

7 Sec. 66. Section 453A.3, unnumbered paragraph 1,
8 Code 1995, is amended to read as follows:

9 A person who violates section 453A.2, subsection 1,
10 ~~or-section-453A.39~~ is guilty of a simple misdemeanor.

11 Sec. 67. Section 453A.6, subsection 1, Code 1995,
12 is amended to read as follows:

13 1. There is imposed, and shall be collected and
14 paid to the department, ~~the-following-taxes~~ on all
15 cigarettes used or otherwise disposed of in this state
16 for any purpose ~~whatsoever~~:

17 ~~---Class-A---On-cigarettes-weighing-not-more-than~~
18 ~~three-pounds-per-thousand,-eighteen-mills~~ a tax at the
19 rate of three and six-tenths cents on each such
20 cigarette.

21 ~~Class-B---On-cigarettes-weighing-more-than-three~~
22 ~~pounds-per-thousand,-eighteen-mills-on-each-such~~
23 cigarette.

24 Sec. 68. Section 453A.13, subsections 1 and 2,
25 Code 1995, are amended to read as follows:

26 1. PERMITS REQUIRED. Every distributor,
27 wholesaler, ~~cigarette-vendor~~, and retailer, now
28 engaged or who desires to become engaged in the sale
29 or use of cigarettes, upon which a tax is required to
30 be paid, shall obtain a state or retail cigarette
31 permit as a distributor, wholesaler, ~~cigarette-vendor~~,
32 or retailer, as the case may be.

33 2. ISSUANCE OR DENIAL.

34 a. The department shall issue state permits to
35 distributors, and wholesalers, ~~and-cigarette-vendors~~
36 subject to the conditions provided in this division.
37 Cities may issue retail permits to dealers within
38 their respective limits. County boards of supervisors
39 may issue retail permits to dealers in their
40 respective counties, outside of the corporate limits
41 of cities.

42 b. The department may deny the issuance of a
43 permit to a distributor, wholesaler, ~~vendor~~ or
44 retailer who is substantially delinquent in the
45 payment of a tax due, or the interest or penalty on
46 the tax, administered by the department at the time of
47 application. If the applicant is a partnership, a
48 permit may be denied if a partner is substantially
49 delinquent on any delinquent tax, penalty or interest.
50 If the applicant is a corporation, a permit may be

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1 denied if any officer having a substantial legal or
2 equitable interest in the ownership of the corporation
3 owes any delinquent tax, interest or penalty of the
4 applicant corporation.

5 Sec. 69. Section 453A.13, subsection 3, unnumbered
6 paragraph 1, Code 1995, is amended to read as follows:

7 All permits provided for in this division shall
8 expire on June 30 of each year. A permit shall not be
9 granted or issued until the applicant has paid for the
10 period ending June 30 next, to the department or the
11 city or county granting the permit, the fees provided
12 for in this division. The annual state permit fee for
13 a distributor, ~~cigarette-vender~~, and wholesaler is one
14 hundred dollars when the permit is granted during the
15 months of July, August, or September. However,
16 whenever a state permit holder operates more than one
17 place of business, a duplicate state permit shall be
18 issued for each additional place of business on
19 payment of five dollars for each duplicate state
20 permit, but refunds as provided in this division do
21 not apply to any duplicate permit issued.

22 Sec. 70. Section 453A.13, subsection 6, Code 1995,
23 is amended to read as follows:

24 6. NO SALES WITHOUT PERMIT. No distributor,
25 wholesaler, ~~cigarette-vender~~, or retailer shall sell
26 any cigarettes until such application has been filed
27 and the fee prescribed paid for a permit and until
28 such permit is obtained and only while such permit is
29 unrevoked and unexpired.

30 Sec. 71. Section 453A.22, subsection 2, unnumbered
31 paragraph 1, Code 1995, is amended to read as follows:

32 If a retailer or employee of a retailer has
33 violated section 453A.27 or 453A.36, subsection 6, or
34 ~~453A-39~~, the department or local authority, in
35 addition to the other penalties fixed for such
36 violations in this section, shall assess a penalty
37 upon the same hearing and notice as prescribed in
38 subsection 1 as follows:

39 Sec. 72. Section 453A.22, subsection 2, unnumbered
40 paragraph 1, Code 1995, is amended to read as follows:

41 If a retailer or employee of a retailer has
42 violated section 453A.27 or 453A.36, subsection 6, or
43 ~~453A-39~~ 8, or 9, the department or local authority, in
44 addition to the other penalties fixed for such
45 violations in this section, shall assess a penalty
46 upon the same hearing and notice as prescribed in
47 subsection 1 as follows:

48 Sec. 73. Section 453A.36, subsection 6, Code 1995,
49 is amended by striking the subsection and inserting in
50 lieu thereof the following:

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1 6. a. A person shall not sell cigarettes or
2 tobacco products through a vending machine or through
3 self-service displays in this state.

4 b. A manufacturer, distributor, wholesaler,
5 retailer, distributing agent or agent thereof shall
6 not give away cigarettes or tobacco products at any
7 time in connection with the manufacturer's,
8 distributor's, wholesaler's, retailers', distributing
9 agent's or agent's thereof promotion of the business
10 or product.

11 c. It is unlawful for any manufacturer,
12 distributor, wholesaler, retailer, distributing agent
13 or agent thereof to advertise on any advertising
14 device cigarettes or other tobacco products within one
15 thousand feet of any playground, elementary school,
16 middle school, high school, or other facility when
17 such facility is being used primarily by persons under
18 age eighteen for recreational, educational, or other
19 purposes.

20 d. A manufacturer, distributor, wholesaler,
21 retailer, distributing agent or agent thereof shall
22 not advertise cigarettes or tobacco products on
23 advertising devices in this state, no matter where
24 located, including but not limited to advertising
25 devices located on public transportation or at the
26 point-of-sale, shall be in black and white text only.

27 e. A manufacturer, distributor, wholesaler,
28 retailer, distributing agent or agent thereof shall
29 not sell or distribute in this state promotional items
30 and prizes, including but not limited to caps, T-
31 shirts, and bags, which bear the logo or name of a
32 cigarette or tobacco product, and shall not utilize
33 proof-of-purchase exchanges for cigarettes or other
34 tobacco products in this state.

35 f. Any cigarettes or tobacco products or related
36 items sold or distributed in this state are subject to
37 all of the following, as applicable:

38 (1) All sales of cigarettes and tobacco products
39 shall be made in face-to-face sales, and age
40 verification shall be required for each sale.

41 (2) All cigarettes and tobacco products shall be
42 located behind a counter or in another location which
43 is under the exclusive control of the seller and which
44 is not directly accessible to the general public.

45 g. In addition to any other penalty which applies
46 to a violation of this subsection, any person, as
47 specified in this subsection, who violates this
48 subsection, is guilty of a serious misdemeanor.

49 Sec. 74. Section 453A.42, subsection 8, Code 1995,
50 is amended to read as follows:

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1 8. "Place of business" means any place where
2 tobacco products are sold or where tobacco products
3 are manufactured, stored, or kept for the purpose of
4 sale or consumption, including any vessel, vehicle,
5 airplane, ~~or train, or vending machine.~~

6 Sec. 75. Section 453A.43, subsection 1, unnumbered
7 paragraph 1, Code 1995, is amended to read as follows:

8 A tax is imposed upon all tobacco products in this
9 state and upon any person engaged in business as a
10 distributor of tobacco products, at the rate of
11 ~~twenty-two~~ forty-four percent of the wholesale sales
12 price of the tobacco products, except little cigars as
13 defined in section 453A.42. Little cigars shall be
14 subject to the same rate of tax imposed upon
15 cigarettes in section 453A.6, payable at the time and
16 in the manner provided in section 453A.6; and stamps
17 shall be affixed as provided in division I of this
18 chapter. The tax on tobacco products, excluding
19 little cigars, shall be imposed at the time the
20 distributor does any of the following:

21 Sec. 76. Section 453A.43, subsection 2, unnumbered
22 paragraph 1, Code 1995, is amended to read as follows:

23 A tax is imposed upon the use or storage by
24 consumers of tobacco products in this state, and upon
25 the consumers, at the rate of ~~twenty-two~~ forty-four
26 percent of the cost of the tobacco products.

27 Sec. 77. Section 453A.56, Code 1995, is amended to
28 read as follows:

29 453A.56 UNIFORM APPLICATION.

30 Enforcement of this chapter shall be implemented in
31 an equitable manner throughout the state. For the
32 purpose of equitable and uniform implementation,
33 application, and enforcement of state and local laws
34 and regulations, the provisions of this chapter shall
35 supersede any local law or regulation which is
36 inconsistent with or conflicts with the provisions of
37 this chapter, unless the local law or regulation is
38 more restrictive in application in which case the more
39 restrictive portion of the local law or regulation
40 shall supersede any inconsistent or conflicting
41 provision of this chapter. This section and any other
42 provision in this chapter shall not prohibit the
43 imposition of a local option cigarette and tobacco tax
44 under chapter 422B.

45 Sec. 78. NEW SECTION. 453A.57 IOWA DO NOT START-
46 STOP SMOKING FUND ESTABLISHED.

47 1. An Iowa do not start-stop smoking fund is
48 created within the state treasury under the control of
49 the Iowa department of public health. Moneys received
50 by the department from fees collected and designated

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1 for this purpose shall be deposited in the state
2 treasury to the credit of the fund and are
3 appropriated for the purposes specified in this
4 section. Notwithstanding section 8.33, any unexpended
5 balance in the fund at the end of each fiscal year
6 shall be retained in the fund. Any interest and
7 earnings on investments from money in the fund shall
8 be credited to the fund, section 12C.7
9 notwithstanding.

10 2. Every manufacturer, distributor, distributing
11 agent, wholesaler, retailer, or subjobber who engages
12 in the sale, distribution, or use of cigarettes or
13 tobacco products in this state, upon which a tax is
14 required to be paid, and who is required to obtain a
15 permit or license, shall pay, in addition to any fee
16 for a permit, a fee of one hundred dollars at the time
17 of application for a permit or license. If a state
18 permit holder operates more than one place of
19 business, the fee shall only be paid at the time of
20 the initial application for a permit or license. The
21 moneys collected shall be deposited in the Iowa do not
22 start-stop smoking fund created in this section.

23 3. The Iowa department of public health shall
24 develop and implement a do not start-stop smoking
25 education campaign to educate minors and others about
26 the hazards of using cigarettes and tobacco products.
27 Sec. 79. Section 453A.39, Code 1995, is repealed.
28 Sec. 80. Section 57 of this Act, relating to the
29 recovery of medical assistance expenditures due to
30 smoking, being deemed of immediate importance, takes
31 effect upon enactment.

32 Sec. 81. This division of this Act with the
33 exception of section 57 takes effect July 1, 1996, and
34 section 58 of this division applies to tax years
35 ending on or after that date.

36 Sec. 82. RETROACTIVE APPLICABILITY. The state may
37 recover, pursuant to section 249A.30, in addition to
38 any subsequent damages, any applicable damages
39 incurred within the two years preceding the date of
40 enactment of section 249A.30 of this Act."

41 2. Page 6, line 6, by inserting after the word
42 "tax," the following: "increasing the standard
43 deduction for individual income tax purposes,
44 increasing the tax rate on cigarettes and tobacco
45 products, and making other changes relating to
46 cigarette and tobacco products,".

47 3. Page 6, line 9, by inserting after the word
48 "relief" the following: ", providing penalties,".

By BRAMMER of Linn

H-5655 FILED MARCH 27, 1996

Lost 3/27/96

(p. 1037)

SENATE FILE 2449

H-5670

1 Amend amendment, H-5523, to Senate File 2449, as
 2 amended, passed, and reprinted by the Senate, as
 3 follows:
 4 1. Page 3, line 28, by striking the words
 5 "PROPERTY TAX" and inserting the following:
 6 "FUNDING".
 7 2. By striking page 3, line 29, through page 6,
 8 line 1, and inserting the following:
 9 "Sec. ____ . Section 257.1, subsection 2, unnumbered
 10 paragraph 2, Code Supplement 1995, is amended to read
 11 as follows:
 12 For the budget year commencing July 1, ~~1991~~ 1996,
 13 ~~and-for-each-succeeding-budget-year~~ the regular
 14 program foundation base per pupil is ~~eighty-three~~
 15 ~~eighty-seven~~ percent of the regular program state cost
 16 per pupil, ~~except that the regular program foundation~~
 17 ~~base per pupil for the portion of weighted enrollment~~
 18 ~~that is additional enrollment because of special~~
 19 ~~education is seventy-nine percent of the regular~~
 20 ~~program state cost per pupil.~~ For each succeeding
 21 budget year, the regular program foundation base shall
 22 increase one-half of one percent per year until the
 23 regular program foundation base reaches ninety percent
 24 of the regular program state cost per pupil. For the
 25 budget year commencing July 1, ~~1991~~ 1996, ~~and-for-each~~
 26 ~~succeeding-budget-year~~ the special education support
 27 services foundation base is ~~seventy-nine~~ eighty-seven
 28 percent of the special education support services
 29 state cost per pupil. It shall increase at the same
 30 rate as the regular program foundation base. The
 31 combined foundation base is the sum of the regular
 32 program foundation base and the special education
 33 support services foundation base.
 34 Sec. ____ . This division of this Act, being deemed
 35 of immediate importance, takes effect upon enactment,
 36 and applies to the computation of school funding for
 37 school budget years commencing on or after July 1,
 38 1996."
 39 3. Page 6, by striking line 8 and inserting the
 40 following: "providing additional state aid to school
 41 districts for purposes".
 42 4. By renumbering as necessary.

By WISE of Lee
 SHOULTZ of Black Hawk
 OLLIE of Clinton

H-5670 FILED MARCH 27, 1996

Loat
3/27/96
(P. 1052)

SENATE FILE 2449

H-5668

1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 1, line 6, by striking the word
5 "INDEXATION".

6 2. Page 2, by inserting after line 16 the
7 following:

8 "Sec. ____ . NEW SECTION. 422.12F CAPITAL GAIN
9 CREDIT.

10 1. The taxes imposed under this division shall be
11 reduced by a capital gain credit equal to fifty
12 percent of the net capital gain of the taxpayer on the
13 sale of agricultural land to a beginning farmer under
14 the "Farm-On" program of the agricultural extension
15 service. However, to receive the credit both the
16 taxpayer and the beginning farmer must be enrolled in
17 the "Farm-On" program prior to the sale of the
18 agricultural land.

19 2. The taxpayer must completely fill out the
20 return and determine the taxpayer's tax liability
21 without deduction for the credit allowed in subsection
22 1 and pay the amount of tax owed. The taxpayer shall
23 then recompute the taxpayer's income tax liability
24 pursuant to this division with the deduction for the
25 credit allowed in subsection 1 on a special return.
26 This special return shall be filed with the regular
27 return and constitutes a claim for refund of the
28 difference between the amount of tax the taxpayer paid
29 on the regular return and the amount of tax determined
30 on the special return.

31 3. For any tax year, the aggregate amount of
32 refund claims that shall be paid pursuant to this
33 section shall not exceed ten million dollars. If, for
34 a tax year, the aggregate amount of refund claims
35 filed pursuant to this section exceeds ten million
36 dollars, each claim for refund shall be paid on a pro
37 rata basis so that the aggregate amount of refund
38 claims does not exceed ten million dollars. In the
39 case where refund claims are not allowed in full, the
40 amount of the refund to which the taxpayer is entitled
41 under this section is the pro rata amount that was
42 paid and the taxpayer is not entitled to a refund of
43 the unpaid portion and is not entitled to carry that
44 amount forward or backward to another tax year.
45 Taxpayers shall not use refunds as estimated payments
46 for the succeeding tax year. The department shall
47 determine by October 1 of the tax year following the
48 tax year for which the refund claim is filed if the
49 aggregate amount of refund claims exceeds ten million
50 dollars for the tax year. Notwithstanding any

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1 provision, interest shall not be due on any refund
2 claims that are paid by December 31 of the tax year
3 following the tax year for which the refund claim is
4 filed. For taxpayers that are fiscal year filers, the
5 amount of the refund claim allowed shall be in the
6 same ratio as the refund claims allowed for the tax
7 year in which the taxpayer's fiscal year began."

8 3. Page 2, line 21, by inserting after the figure
9 "1996." the following: "This division of this Act
10 applies retroactively to January 1, 1996, to tax years
11 beginning on or after that date."

12 4. Page 6, line 6, by striking the word "of" and
13 inserting the following: "and providing a credit for
14 the sale of farmland to a beginning farmer under".

By BRAND of Benton

H-5668 FILED MARCH 27, 1996

Loet
3/27/96
(p. 1050)

SENATE FILE 2449

H-5662

1 Amend the amendment, H-5523, to Senate File 2449,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 3, by inserting after line 26 the
5 following:

"DIVISION

FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

8 Sec. ____ . Section 425A.1, Code 1995, is amended to
9 read as follows:

10 425A.1 FAMILY FARM TAX CREDIT FUND.

11 The family farm tax credit fund is created in the
12 office of the treasurer of state. There shall be
13 ~~transferred appropriated annually to the fund the~~
14 ~~first-ten-million-dollars-of-the-amount-annually~~
15 ~~appropriated-to-the-agricultural-land-credit-fund,~~
16 ~~provided-in-section-426-1~~ an amount sufficient to
17 implement this chapter. Any balance in the fund on
18 June 30 shall revert to the general fund.

19 Sec. ____ . Section 425A.2, subsection 4, Code 1995,
20 is amended to read as follows:

21 4. "Designated person" means one of the following:

22 a. If the owner is an individual, the designated
23 person includes the owner of the tract ~~or a person~~
24 ~~related-to-the-owner-as,~~ the owner's spouse, parent,
25 ~~grandparent,~~ the owner's child, ~~grandchild,~~ or
26 stepchild, and their spouses, or the owner's relative
27 within the third degree of consanguinity, and the
28 relative's spouse.

29 b. If the owner is a partnership, a partner, or
30 the partner's spouse.

31 c. If the owner is a family farm corporation, a
32 family member who is a shareholder of the family farm
33 corporation or the shareholder's spouse.

34 d. If the owner is an authorized farm corporation,
35 a shareholder who owns at least fifty-one percent of
36 the stock of the authorized farm corporation or the
37 shareholder's spouse.

38 e. If the owner is an individual who leases the
39 tract to a family farm corporation, a shareholder of
40 the corporation if the combined stock of the family
41 farm corporation owned by the owner of the tract and
42 persons related to the owner as enumerated in
43 paragraph "a" is equal to at least fifty-one percent
44 of the stock of the family farm corporation.

45 f. If the owner is an individual who leases the
46 tract to a partnership, a partner if the combined
47 partnership interest owned by the owner of the tract
48 and persons related to the owner as enumerated in
49 paragraph "a" is equal to at least fifty-one percent
50 of the ownership interest of the partnership.

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1 Sec. ____ . Section 426.1, Code 1995, is amended to
2 read as follows:

3 426.1 AGRICULTURAL LAND CREDIT FUND.

4 There is created as a permanent fund in the office
5 of the treasurer of state a fund to be known as the
6 agricultural land credit fund, and for the purpose of
7 establishing and maintaining this fund for each fiscal
8 year there is appropriated ~~thereto~~ to the fund from
9 funds in the general fund not otherwise appropriated
10 the sum of ~~thirty-nine~~ twenty-nine million one hundred
11 thousand dollars ~~of which the first ten million~~
12 ~~dollars shall be transferred to and deposited into the~~
13 ~~family farm tax credit fund created in section 425A.1.~~
14 Any balance in said fund on June 30 shall revert to
15 the general fund.

16 Sec. ____ . This division of this Act, being deemed
17 of immediate importance, takes effect upon enactment
18 and applies to family farm tax credits and
19 agricultural land credits allowed for property taxes
20 due and payable in fiscal years beginning on or after
21 July 1, 1996."

22 2. Page 6, line 7, by inserting after the word
23 "tax," the following: "increasing the funding for the
24 family farm tax credit,".

By WEIGEL of Chickasaw

H-5662 FILED MARCH 27, 1996

Lost
3/27/96
(p. 1042)

HOUSE AMENDMENT TO
SENATE FILE 2449

S-5574

1 Amend Senate File 2449, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. By striking everything after the enacting
4 clause and inserting the following:

5 "DIVISION I

6 INCOME TAX INDEXATION

7 Section 1. Section 422.4, subsection 1, paragraphs
8 a and d, Code 1995, are amended to read as follows:

9 a. "Annual inflation factor" means an index,
10 expressed as a percentage, determined by the
11 department by October 15 of the calendar year
12 preceding the calendar year for which the factor is
13 determined, which reflects the purchasing power of the
14 dollar as a result of inflation during the fiscal year
15 ending in the calendar year preceding the calendar
16 year for which the factor is determined. In
17 determining the annual inflation factor, the
18 department shall use the annual percent change, but
19 not less than zero percent, in the ~~implicit-price~~
20 ~~deflator-for-the-gross-national-product~~ gross domestic
21 product price deflator computed for the second quarter
22 of the calendar year by the bureau of economic
23 analysis of the United States department of commerce
24 and shall add ~~one-half~~ all of that percent change to
25 one hundred percent. The annual inflation factor and
26 the cumulative inflation factor shall each be
27 expressed as a percentage rounded to the nearest one-
28 tenth of one percent. The annual inflation factor
29 shall not be less than one hundred percent.

30 d. Notwithstanding the computation of the annual
31 inflation factor under paragraph "a", the annual
32 inflation factor is one hundred percent for any
33 calendar year in which the unobligated state general
34 fund balance on June 30 as certified by the director
35 of the department of management by October 10, is less
36 than sixty million dollars. Notwithstanding section
37 8.58, in determining the unobligated state general
38 fund balance on June 30, unobligated moneys in the
39 cash reserve fund and Iowa economic emergency fund on
40 June 30 shall be counted as part of the unobligated
41 state general fund balance for purposes of this
42 paragraph.

43 Sec. 2. Section 422.4, subsection 2, paragraph a,
44 Code 1995, is amended to read as follows:

45 a. "Annual standard deduction factor" means an
46 index, expressed as a percentage, determined by the
47 department by October 15 of the calendar year
48 preceding the calendar year for which the factor is
49 determined, which reflects the purchasing power of the
50 dollar as a result of inflation during the fiscal year

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1 ending in the calendar year preceding the calendar
2 year for which the factor is determined. In
3 determining the annual standard deduction factor, the
4 department shall use the annual percent change, but
5 not less than zero percent, in the ~~implicit-price~~
6 ~~deflator-for-the-gross-national-product~~ gross domestic
7 product price deflator computed for the second quarter
8 of the calendar year by the bureau of economic
9 analysis of the United States department of commerce
10 and shall add ~~one-half~~ all of that percent change to
11 one hundred percent. The annual standard deduction
12 factor and the cumulative standard deduction factor
13 shall each be expressed as a percentage rounded to the
14 nearest one-tenth of one percent. The annual standard
15 deduction factor shall not be less than one hundred
16 percent.

17 Sec. 3. This division of this Act, being deemed of
18 immediate importance, takes effect upon enactment and
19 applies to the computation of the annual inflation
20 factor and annual standard deduction factor for
21 calendar years beginning on or after January 1, 1996.
22 The department of revenue and finance shall adjust the
23 annual inflation factor and annual standard deduction
24 factor previously computed for the 1996 calendar year
25 to reflect the change made in the computation of those
26 factors in this Act.

DIVISION II

INHERITANCE TAXATION

27
28
29 Sec. 4. Section 450.7, subsection 1, unnumbered
30 paragraph 1, Code Supplement 1995, is amended to read
31 as follows:

32 Except for the share of the estate passing to the
33 surviving spouse, father or mother, each son and
34 daughter, including legally adopted sons and daughters
35 or biological sons and daughters, stepchildren, and
36 grandchildren, the tax is a charge against and a lien
37 upon the estate subject to tax under this chapter, and
38 all property of the estate or owned by the decedent
39 from the death of the decedent until paid, subject to
40 the following limitation:

41 Sec. 5. Section 450.9, subsection 1, Code 1995, is
42 amended to read as follows:

43 1. Surviving spouse, father or mother, son or
44 daughter, including legally adopted sons and daughters
45 or biological sons and daughters, stepchildren, or
46 grandchild, the entire amount of property, interest in
47 property, and income.

48 Sec. 6. Section 450.9, subsections 2 and 3, Code
49 1995, are amended by striking the subsections.

50 Sec. 7. Section 450.10, subsection 1, unnumbered

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1 paragraph 1, Code 1995, is amended to read as follows:

2 When the property, interest, or income passes to
3 ~~the father or mother, or to a child or a lineal~~
4 descendant of the decedent, grantor, donor, or vendor,
5 ~~including a legally adopted child or biological child~~
6 ~~entitled to inherit under the laws of this state not~~
7 ~~included in subsection 7,~~ the tax imposed shall be on
8 the individual share so passing in excess of the
9 exemptions allowed as follows:

10 Sec. 8. Section 450.10, subsection 2, unnumbered
11 paragraph 1, Code 1995, is amended to read as follows:

12 When the property or any interest ~~therein in~~
13 ~~property,~~ or income ~~therefrom from~~ property taxable
14 under the provisions of this chapter passes to the
15 brother or sister, son-in-law, or daughter-in-law, or
16 ~~step-children,~~ the rate of tax imposed on the
17 individual share so passing shall be as follows:

18 Sec. 9. Section 450.10, subsection 7, Code 1995,
19 is amended to read as follows:

20 7. Property, interest in property, or income
21 passing to the surviving spouse, father or mother, son
22 or daughter, including legally adopted sons and
23 daughters or biological sons and daughters, stepchild,
24 or grandchild, is not taxable under this section.

25 Sec. 10. This division of this Act applies to
26 estates of decedents dying on or after July 1, 1996.

27 DIVISION III

28 SCHOOL PROPERTY TAX

29 Sec. 11. Section 257.3, subsection 1, unnumbered
30 paragraph 1, Code Supplement 1995, is amended to read
31 as follows:

32 ~~Except as provided in subsections 2 and 3, a A~~
33 school district shall cause to be levied each year,
34 for the school general fund, a foundation property tax
35 equal to ~~five~~ four dollars and ~~forty~~ fifty cents per
36 thousand dollars of assessed valuation on all taxable
37 property in the district. The county auditor shall
38 spread the foundation levy over all taxable property
39 in the district.

40 Sec. 12. Section 257.3, subsections 2 and 3, Code
41 Supplement 1995, are amended by striking the
42 subsections.

43 Sec. 13. Section 257.3, subsection 4, Code
44 Supplement 1995, is amended to read as follows:

45 4. RAILWAY CORPORATIONS. For purposes of section
46 257.1, the "amount per pupil of foundation property
47 tax" does not include the tax levied under subsection
48 ~~17-2, or 3~~ on the property of a railway corporation,
49 or on its trustee if the corporation has been declared
50 bankrupt or is in bankruptcy proceedings.

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1 Sec. 14. Section 275.55, unnumbered paragraph 4,
2 Code 1995, is amended by striking the unnumbered
3 paragraph.

4 Sec. 15. Section 425A.3, subsection 1, Code 1995,
5 is amended to read as follows:

6 1. The family farm tax credit fund shall be
7 apportioned each year in the manner provided in this
8 chapter so as to give a credit against the tax on each
9 eligible tract of agricultural land within the several
10 school districts of the state in which the levy for
11 the general school fund exceeds five four dollars and
12 forty fifteen cents per thousand dollars of assessed
13 value. The amount of the credit on each eligible
14 tract of agricultural land shall be the amount the tax
15 levied for the general school fund exceeds the amount
16 of tax which would be levied on each eligible tract of
17 agricultural land were the levy for the general school
18 fund five four dollars and forty fifteen cents per
19 thousand dollars of assessed value for the previous
20 year. However, in the case of a deficiency in the
21 family farm tax credit fund to pay the credits in
22 full, the credit on each eligible tract of
23 agricultural land in the state shall be proportionate
24 and applied as provided in this chapter.

25 Sec. 16. Section 425A.5, Code 1995, is amended to
26 read as follows:

27 425A.5 COMPUTATION BY COUNTY AUDITOR.

28 The family farm tax credit allowed each year shall
29 be computed as follows: On or before March 1, the
30 county auditor shall list by school districts all
31 tracts of agricultural land which are entitled to
32 credit, the taxable value for the previous year, the
33 budget from each school district for the previous
34 year, and the tax rate determined for the general fund
35 of the school district in the manner prescribed in
36 section 444.3 for the previous year, and if the tax
37 rate is in excess of five four dollars and forty
38 fifteen cents per thousand dollars of assessed value,
39 the auditor shall multiply the tax levy which is in
40 excess of five four dollars and forty fifteen cents
41 per thousand dollars of assessed value by the total
42 taxable value of the agricultural land entitled to
43 credit in the school district, and on or before March
44 1, certify the total amount of credit and the total
45 number of acres entitled to the credit to the
46 department of revenue and finance.

47 Sec. 17. Section 426.3, Code 1995, is amended to
48 read as follows:

49 426.3 WHERE CREDIT GIVEN.

50 The agricultural land credit fund shall be

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1 apportioned each year in the manner hereinafter
2 provided in this chapter so as to give a credit
3 against the tax on each tract of agricultural lands
4 within the several school districts of the state in
5 which the levy for the general school fund exceeds
6 five four dollars and forty fifteen cents per thousand
7 dollars of assessed value; the amount of such credit
8 on each tract of such lands shall be the amount the
9 tax levied for the general school fund exceeds the
10 amount of tax which would be levied on said the tract
11 of such lands were the levy for the general school
12 fund five four dollars and forty fifteen cents per
13 thousand dollars of assessed value for the previous
14 year, except in the case of a deficiency in the
15 agricultural land credits fund to pay said credits in
16 full, in which case the credit on each eligible tract
17 of such lands in the state shall be proportionate and
18 shall be applied as hereinafter provided in this
19 chapter.

20 Sec. 18. Section 426.6, unnumbered paragraph 1,
21 Code 1995, is amended to read as follows:

22 The agricultural land tax credit allowed each year
23 shall be computed as follows: On or before the first
24 of June the county auditor shall list by school
25 districts all tracts of agricultural lands which they
26 are entitled to credit, together with the taxable
27 value for the previous year, together with the budget
28 from each school district for the previous year, and
29 the tax rate determined for the general fund of the
30 district in the manner prescribed in section 444.3 for
31 the previous year, and if such the tax rate is in
32 excess of five four dollars and forty fifteen cents
33 per thousand dollars of assessed value, the auditor
34 shall multiply the tax levy which is in excess of five
35 four dollars and forty fifteen cents per thousand
36 dollars of assessed value by the total taxable value
37 of the agricultural lands entitled to credit in the
38 district, and on or before the first of June certify
39 the amount to the department of revenue and finance.

40 Sec. 19.

41 1. Sections 11 through 14 of this division of this
42 Act, being deemed of immediate importance, take effect
43 upon enactment, and apply to the computation of school
44 foundation property taxes payable during school budget
45 years beginning on or after July 1, 1996.

46 2. Sections 15 through 18 of this division of this
47 Act take effect January 1, 1997, and apply to the
48 computation of family farm tax credits and
49 agricultural land tax credits granted for property
50 taxes payable in school budget years beginning on or

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1 after July 1, 1997."
2 2. Title page, by striking lines 1 through 17 and
3 inserting the following: "An Act relating to taxation
4 within the state by changing the computation of the
5 inflation factors for the tax brackets and standard
6 deduction of the state individual income tax,
7 exemptions from the state inheritance tax, and
8 reducing the school district uniform levy for purposes
9 of providing tax relief and providing effective and
10 retroactive and other applicability date provisions."

RECEIVED FROM THE HOUSE

S-5574 FILED MARCH 27, 1996

*Senate Concurred
3/28/96
(P. 1125)*

SENATE FILE 2449

S-5580

1 Amend the House amendment, S-5574, to Senate File
2 2449, as amended, passed, and reprinted by the Senate,
3 as follows:

4 1. By striking page 1, line 3, through page 6,
5 line 10, and inserting the following:

6 "_____. By striking everything after the enacting
7 clause and inserting the following:

8 "DIVISION I

9 INCOME TAX INDEXATION

10 Section 1. Section 422.4, subsection 1, paragraph
11 a, Code 1995, is amended to read as follows:

12 a. "Annual inflation factor" means an index,
13 expressed as a percentage, determined by the
14 department by October 15 of the calendar year
15 preceding the calendar year for which the factor is
16 determined, which reflects the purchasing power of the
17 dollar as a result of inflation during the fiscal year
18 ending in the calendar year preceding the calendar
19 year for which the factor is determined. In
20 determining the annual inflation factor, the
21 department shall use the annual percent change, but
22 not less than zero percent, in the ~~implicit-price~~
23 ~~deflator-for-the-gross-national-product~~ gross domestic
24 product price deflator computed for the second quarter
25 of the calendar year by the bureau of economic
26 analysis of the United States department of commerce
27 and shall add ~~one-half~~ all of that percent change to
28 one hundred percent. ~~The~~ annual inflation factor and
29 the cumulative inflation factor shall each be
30 expressed as a percentage rounded to the nearest one-
31 tenth of one percent. The annual inflation factor
32 shall not be less than one hundred percent.

33 Sec. 2. Section 422.4, subsection 2, paragraph a,
34 Code 1995, is amended to read as follows:

35 a. "Annual standard deduction factor" means an
36 index, expressed as a percentage, determined by the
37 department by October 15 of the calendar year
38 preceding the calendar year for which the factor is
39 determined, which reflects the purchasing power of the
40 dollar as a result of inflation during the fiscal year
41 ending in the calendar year preceding the calendar
42 year for which the factor is determined. In
43 determining the annual standard deduction factor, the
44 department shall use the annual percent change, but
45 not less than zero percent, in the ~~implicit-price~~
46 ~~deflator-for-the-gross-national-product~~ gross domestic
47 product price deflator computed for the second quarter
48 of the calendar year by the bureau of economic
49 analysis of the United States department of commerce
50 and shall add ~~one-half~~ all of that percent change to

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1 one hundred percent. The annual standard deduction
2 factor and the cumulative standard deduction factor
3 shall each be expressed as a percentage rounded to the
4 nearest one-tenth of one percent. The annual standard
5 deduction factor shall not be less than one hundred
6 percent.

7 Sec. 3. This division of this Act, being deemed of
8 immediate importance, takes effect upon enactment and
9 applies to the computation of the annual inflation
10 factor and annual standard deduction factor for
11 calendar years beginning on or after January 1, 1996.
12 The department of revenue and finance shall adjust the
13 annual inflation factor and annual standard deduction
14 factor previously computed for the 1996 calendar year
15 to reflect the change made in the computation of those
16 factors in this Act.

17
18 DIVISION II
19 INHERITANCE TAX

20 Sec. 4. Section 450.9, subsections 2 and 3, Code
21 1995, are amended to read as follows:

22 2. Each son and daughter, including legally
23 adopted sons and daughters, or stepsons and
24 stepdaughters, or biological sons and daughters
25 entitled to inherit under the law of this state, fifty
26 two hundred thousand dollars.

27 3. Father or mother, fifteen fifty thousand
28 dollars.

29 Sec. 5. Section 450.9, Code 1995, is amended by
30 adding the following new subsection after subsection
31 3:

32 NEW SUBSECTION. 3A. Each grandchild, fifty
33 thousand dollars.

34 Sec. 6. This division of this Act takes effect
35 July 1 following enactment of the division and applies
36 to the estates of decedents dying on or after that
37 date.

38 DIVISION III
39 HOMESTEAD, MILITARY, AND LOW-INCOME
40 TAX CREDIT AND REIMBURSEMENT

41 Sec. 7. Section 8.59, Code 1995, is amended to
42 read as follows:

43 8.59 APPROPRIATIONS FREEZE.

44 Notwithstanding contrary provisions of the Code,
45 the amounts appropriated under the applicable sections
46 of the Code for fiscal years commencing on or after
47 July 1, 1993, are limited to those amounts expended
48 under those sections for the fiscal year commencing
49 July 1, 1992. If an applicable section appropriates
50 moneys to be distributed to different recipients and
the operation of this section reduces the total amount

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1 to be distributed under the applicable section, the
2 moneys shall be prorated among the recipients. As
3 used in this section, "applicable sections" means the
4 following sections: 53.50, 229.35, 230.8, 230.11,
5 405A.8, 411.20, ~~425.17-425.397-426A.17~~ 663.44, and
6 822.5.

7 Sec. 8. Section 425.1, subsection 1, Code 1995, is
8 amended to read as follows:

9 1. A homestead credit fund is created. There is
10 appropriated annually from the general fund of the
11 state to the department of revenue and finance to be
12 credited to the homestead credit fund, ~~an amount~~
13 sufficient the sum of one hundred fourteen million
14 four hundred thousand dollars to implement this
15 chapter.

16 The director of revenue and finance shall issue
17 warrants on the homestead credit fund payable to the
18 county treasurers of the several counties of the state
19 under this chapter.

20 Sec. 9. Section 425.17, subsection 2, paragraph b,
21 Code 1995, is amended to read as follows:

22 b. A person filing a claim for ~~credit or~~
23 reimbursement under this division who has attained the
24 age of twenty-three years on or before December 31 of
25 the base year or was a head of household on December
26 31 of the base year, as defined in the Internal
27 Revenue Code, but has not attained the age or
28 disability status described in paragraph "a", and was
29 domiciled in this state during the entire base year,
30 and is domiciled in this state at the time the claim
31 is filed or at the time of the person's death in the
32 case of a claim filed by the executor or administrator
33 of the claimant's estate, and was not claimed as a
34 dependent on any other person's tax return for the
35 base year.

36 Sec. 10. Section 425.17, subsection 2, unnumbered
37 paragraph 2, Code 1995, is amended to read as follows:

38 "Claimant" under paragraph "a" ~~or "b"~~ includes a
39 vendee in possession under a contract for deed and may
40 include one or more joint tenants or tenants in
41 common. In the case of a claim for rent constituting
42 property taxes paid, the claimant shall have rented
43 the property during any part of the base year. If a
44 homestead is occupied by two or more persons, and more
45 than one person is able to qualify as a claimant, the
46 persons may determine among them who will be the
47 claimant. If they are unable to agree, the matter
48 shall be referred to the director of revenue and
49 finance not later than June 1 of each year and the
50 director's decision is final.

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1 Sec. 11. Section 425.23, subsection 1, paragraph
2 b, Code 1995, is amended by striking the paragraph and
3 inserting in lieu thereof the following:

4 b. The reimbursement for a claimant described in
5 section 425.17, subsection 2, paragraph "b", shall be
6 determined as follows:

| 7 | 8 If the household | Percent of rent constituting |
|-----------------------------|--------------------|------------------------------|
| 9 income is: | | property taxes paid allowed |
| | | as a reimbursement: |
| 10 \$ 0 - 9,999.99 | | 50 |
| 11 10,000 - 13,999.99 | | 42 |
| 12 14,000 - 17,999.99 | | 35 |
| 13 18,000 - 20,999.99 | | 25 |
| 14 21,000 - 23,999.99 | | 17 |
| 15 24,000 - 26,999.99 | | 12 |

16 Sec. 12. Section 425.23, subsection 3, paragraph
17 a, Code 1995, is amended to read as follows:

18 a. A person who is eligible to file a claim for
19 credit for property taxes due and who has a household
20 income of six thousand dollars or less and who has an
21 unpaid special assessment levied against the homestead
22 may file a claim with the county treasurer that the
23 claimant had a household income of six thousand
24 dollars or less and that an unpaid special assessment
25 is presently levied against the homestead. The
26 department shall provide to the respective treasurers
27 the forms necessary for the administration of this
28 subsection. The claim shall be filed not later than
29 September 30 of each year. Upon the filing of the
30 claim, interest for late payment shall not accrue
31 against the amount of the unpaid special assessment
32 due and payable. The claim filed by the claimant
33 constitutes a claim for credit of an amount equal to
34 the actual amount due upon the unpaid special
35 assessment, plus interest, payable during the fiscal
36 year for which the claim is filed against the
37 homestead of the claimant. ~~However, where the~~
38 ~~claimant is an individual described in section 425.17,~~
39 ~~subsection 2, paragraph "b", and the tentative credit~~
40 ~~is determined according to the schedule in section~~
41 ~~425.23, subsection 1, paragraph "b", subparagraph (2),~~
42 ~~the claim filed constitutes a claim for credit of an~~
43 ~~amount equal to one-half of the actual amount due and~~
44 ~~payable during the fiscal year.~~ The department of
45 revenue and finance shall, upon the filing of the
46 claim with the department by the treasurer, pay that
47 amount of the unpaid special assessment during the
48 current fiscal year to the treasurer. The treasurer
49 shall submit the claims to the director of revenue and
50 finance not later than October 15 of each year. The

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1 director of revenue and finance shall certify the
2 amount of reimbursement due each county for unpaid
3 special assessment credits allowed under this
4 subsection. The amount of reimbursement due each
5 county shall be paid by the director of revenue and
6 finance on October 20 of each year, drawn upon
7 warrants payable to the respective treasurer. There
8 is appropriated annually from the general fund of the
9 state to the department of revenue and finance an
10 amount sufficient to carry out the provisions of this
11 subsection. The treasurer shall credit any moneys
12 received from the department against the amount of the
13 unpaid special assessment due and payable on the
14 homestead of the claimant.

15 Sec. 13. Section 425.24, Code 1995, is amended to
16 read as follows:

17 425.24 MAXIMUM PROPERTY TAX FOR PURPOSE OF CREDIT
18 OR REIMBURSEMENT.

19 In any case in which property taxes due or rent
20 constituting property taxes paid for any household
21 exceeds one thousand dollars or six hundred dollars in
22 the case of a claimant described in section 425.17,
23 subsection 2, paragraph "b", the amount of property
24 taxes due or rent constituting property taxes paid
25 shall be deemed to have been one thousand dollars or
26 six hundred dollars in the case of a claimant
27 described in section 425.17, subsection 2, paragraph
28 "b", for purposes of this division.

29 Sec. 14. Section 425.39, Code 1995, is amended to
30 read as follows:

31 1. The extraordinary property tax credit and
32 reimbursement fund is created. There is appropriated
33 annually from the general fund of the state to the
34 department of revenue and finance to be credited to
35 the extraordinary property tax credit and
36 reimbursement fund, from funds not otherwise
37 appropriated, an-amount-sufficient the sum of twelve
38 million five hundred thousand dollars to implement
39 this division.

40 2. If the amount appropriated under subsection 1,
41 ~~as-limited-by-section-8-59,~~ plus any supplemental
42 appropriation made for purposes of this section for a
43 fiscal year is insufficient to pay all claims in full,
44 the director shall pay, in full, all claims to be paid
45 during the fiscal year for reimbursement of rent
46 constituting property taxes paid or if moneys are
47 insufficient to pay all such claims on a pro rata
48 basis. If the amount of claims for credit for
49 property taxes due to be paid during the fiscal year
50 exceed the amount remaining after payment to renters,

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1 the director of revenue and finance shall prorate the
2 payments to the counties for the property tax credit.
3 In order for the director to carry out the
4 requirements of this subsection, notwithstanding any
5 provision to the contrary in this division, claims for
6 reimbursement for rent constituting property taxes
7 paid filed before May 1 of the fiscal year shall be
8 eligible to be paid in full during the fiscal year and
9 those claims filed on or after May 1 of the fiscal
10 year shall be eligible to be paid during the following
11 fiscal year and the director is not required to make
12 payments to counties for the property tax credit
13 before June 15 of the fiscal year.

14 Sec. 15. Section 425.40, Code 1995, is amended to
15 read as follows:

16 425.40 LOW-INCOME FUND CREATED.

17 1. A low-income tax-credit-and rent reimbursement
18 fund is created. There is appropriated annually from
19 the general fund of the state to the low-income rent
20 reimbursement fund the sum of thirteen million five
21 hundred thousand dollars to fund rent reimbursements
22 under this division.

23 2. If the amount appropriated under subsection 1
24 plus any supplemental appropriation made for purposes
25 of this section for a fiscal year is insufficient to
26 pay all claims in full, the director shall pay, in
27 ~~full, all claims to be paid during the fiscal year for~~
28 ~~reimbursement of rent constituting property taxes paid~~
29 ~~or if moneys are insufficient to pay all such claims~~
30 on a pro rata basis. ~~If the amount of claims for~~
31 ~~credit for property taxes due to be paid during the~~
32 ~~fiscal year exceed the amount remaining after payment~~
33 ~~to renters, the director of revenue and finance shall~~
34 ~~prorate the payments to the counties for the property~~
35 ~~tax credit.~~ In order for the director to carry out
36 the requirements of this subsection, notwithstanding
37 any provision to the contrary in this division, claims
38 for reimbursement for rent constituting property taxes
39 paid filed before May 1 of the fiscal year shall be
40 eligible to be paid ~~in full~~ during the fiscal year and
41 those claims filed on or after May 1 of the fiscal
42 year shall be eligible to be paid during the following
43 fiscal year and ~~the director is not required to make~~
44 ~~payments to counties for the property tax credit~~
45 ~~before June 15 of the fiscal year.~~

46 Sec. 16. Section 426A.1, Code 1995, is amended to
47 read as follows:

48 426A.1 APPROPRIATION.

49 There is appropriated from the general fund of the
50 state the amounts necessary sum of two million eight

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1 hundred thousand dollars to fund the credits provided
2 under this chapter.

3 Sec. 17. This division of this Act takes effect
4 July 1, 1996, and applies to homestead, military
5 service, and low-income tax credit and rent
6 reimbursement claims payable in fiscal years beginning
7 on or after July 1, 1996.

8 DIVISION IV

9 SUBCHAPTER S CORPORATIONS

10 Sec. 18. Section 422.4, Code 1995, is amended by
11 adding the following new subsection:

12 NEW SUBSECTION. 15A. "Subchapter S corporation"
13 or "S corporation" means a corporation for which a
14 valid election under section 1362(a) of the Internal
15 Revenue Code is in effect.

16 Sec. 19. Section 422.5, subsection 1, paragraph j,
17 Code 1995, is amended to read as follows:

18 j. (1) The tax imposed upon the taxable income of
19 a nonresident shall be computed by reducing the amount
20 determined pursuant to paragraphs "a" through "i" by
21 the amounts of nonrefundable credits under this
22 division and by multiplying this resulting amount by a
23 fraction of which the nonresident's net income
24 allocated to Iowa, as determined in section 422.8,
25 subsection 2, paragraph "a", is the numerator and the
26 nonresident's total net income computed under section
27 422.7 is the denominator. This provision also applies
28 to individuals who are residents of Iowa for less than
29 the entire tax year.

30 (2) The tax imposed upon the taxable income of a
31 resident shareholder in a subchapter S corporation
32 which makes an election pursuant to section 422.36,
33 subsection 5, paragraph "b", to be taxed as a regular
34 corporation, shall be computed by reducing the amount
35 determined pursuant to paragraphs "a" through "i" by
36 the amounts of nonrefundable credits under this
37 division and by multiplying this resulting amount by a
38 fraction of which the resident's net income allocated
39 to Iowa, as determined in section 422.8, subsection 2,
40 paragraph "b", is the numerator and the resident's
41 total net income as computed under section 422.7 is
42 the denominator. This provision also applies to
43 individuals who are residents of Iowa for less than
44 the entire tax year.

45 (a) In the case of a resident or part-year
46 resident shareholder in a subchapter S corporation
47 which makes an election under section 422.36,
48 subsection 5, paragraph "b", to be taxed as a regular
49 corporation, a taxpayer must completely fill out the
50 return, determine the taxpayer's income tax as if the

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1 taxpayer is not a resident shareholder in a
2 corporation which makes an election pursuant to
3 section 422.36, subsection 5, paragraph "b", and pay
4 the amount of tax which is owed. The taxpayer shall
5 then recompute the taxpayer's income tax liability
6 pursuant to this subparagraph on a special return.
7 This special return shall be filed with the regular
8 return and constitutes a claim for refund of the
9 difference between the amount of tax the taxpayer paid
10 on the regular return and the amount of tax determined
11 on the special return. However, if the amount of tax
12 determined on the special return exceeds the amount of
13 tax paid on the regular return, the taxpayer shall pay
14 the additional amount of tax which is owed on the
15 special return.

16 (b) For any tax year, the aggregate amount of
17 refund claims that shall be paid pursuant to this
18 subparagraph in excess of revenue gains shall not
19 exceed three million five hundred thousand dollars.
20 If, for a tax year, the aggregate amount of refund
21 claims filed pursuant to this subparagraph in excess
22 of revenue gains exceeds three million five hundred
23 thousand dollars, each claim for refund shall be paid
24 on a pro rata basis so that the aggregate amount of
25 refund claims in excess of revenue gains does not
26 exceed three million five hundred thousand dollars.
27 For purposes of the calculation of the three million
28 five hundred thousand dollar limitation provided by
29 this subparagraph subdivision, the department shall
30 take into account all revenue gains as well as revenue
31 losses resulting from the application of the following
32 provisions, including, without limitation, revenue
33 gains arising when the tax calculated under this
34 subparagraph is greater, revenue gains resulting from
35 the denial of tax credits under section 422.8,
36 subsection 6, revenue gains resulting from the
37 taxation of additional income under section 422.7,
38 subsection 35, and revenue gains resulting from the
39 imposition of corporate income taxes on corporations
40 making the election specified in section 422.36,
41 subsection 5, paragraph "b". In the case where refund
42 claims are not allowed in full, the amount of the
43 refund to which the taxpayer is entitled under this
44 subparagraph is the pro rata amount that was paid and
45 the taxpayer is not entitled to a refund of the unpaid
46 portion and is not entitled to carry that amount
47 forward or backward to another tax year. Taxpayers
48 shall not use refunds as estimated payments for the
49 succeeding tax year. The department shall determine
50 by July 1 of the tax year following the tax year for

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1 which the refund claim is filed if the aggregate
2 amount of refund claims in excess of revenue gains
3 exceeds three million five hundred thousand dollars
4 for the tax year. Notwithstanding any provision,
5 interest shall not be due on any refund claims that
6 are paid by September 1 of the tax year following the
7 tax year for which the refund claim is filed. For
8 taxpayers that are fiscal year filers, the amount of
9 the refund claim allowed shall be in the same ratio as
10 the refund claims allowed for the tax year in which
11 the taxpayer's fiscal year began.

12 Sec. 20. Section 422.5, subsection 1, paragraph k,
13 subparagraph (3), unnumbered paragraph 3, Code 1995,
14 is amended to read as follows:

15 In the case of a resident, including a resident
16 estate or trust, the state's apportioned share of the
17 state alternative minimum tax is one hundred percent
18 of the state alternative minimum tax computed in this
19 subsection. In the case of a resident or part-year
20 resident shareholder in a subchapter S corporation
21 which makes an election under section 422.36,
22 subsection 5, paragraph "b" to be taxed as a regular
23 corporation and a nonresident, including a nonresident
24 estate or trust, or an individual, estate, or trust
25 that is domiciled in the state for less than the
26 entire tax year, the state's apportioned share of the
27 state alternative minimum tax is the amount of tax
28 computed under this subsection, reduced by the
29 applicable credits in sections 422.10 through 422.12
30 and this result multiplied by a fraction with a
31 numerator of the sum of state net income allocated to
32 Iowa as determined in section 422.8, subsection 2,
33 paragraph "a" or "b", as applicable, plus tax
34 preference items, adjustments, and losses under
35 subparagraph (1) attributable to Iowa and with a
36 denominator of the sum of total net income computed
37 under section 422.7 plus all tax preference items,
38 adjustments, and losses under subparagraph (1). In
39 computing this fraction, those items excludable under
40 subparagraph (1) shall not be used in computing the
41 tax preference items. Married taxpayers electing to
42 file separate returns or separately on a combined
43 return must allocate the minimum tax computed in this
44 subsection in the proportion that each spouse's
45 respective preference items, adjustments, and losses
46 under subparagraph (1) bear to the combined preference
47 items, adjustments, and losses under subparagraph (1)
48 of both spouses.

49 Sec. 21. Section 422.7, Code Supplement 1995, is
50 amended by adding the following new subsection:

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1 NEW SUBSECTION. 35. In determining gain or loss
2 from the sale or other disposition of stock of a
3 subchapter S corporation which makes an election
4 pursuant to section 422.36, subsection 5, paragraph
5 "b" to be taxed as a regular corporation, the basis of
6 a taxpayer in that stock shall be adjusted for Iowa
7 income tax purposes under rules of the director to
8 reflect any adjustment in Iowa income taxes paid by
9 the taxpayer pursuant to section 422.5, subsection 1,
10 paragraph "j", subparagraph (2).

11 Sec. 22. Section 422.8, subsection 2, Code 1995,
12 is amended to read as follows:

13 2. a. Nonresident's net income allocated to Iowa
14 is the net income, or portion thereof of the net
15 income, which is derived from a business, trade,
16 profession, or occupation carried on within this state
17 or income from any property, trust, estate, or other
18 source within Iowa. However, income derived from a
19 business, trade, profession, or occupation carried on
20 within this state and income from any property, trust,
21 estate, or other source within Iowa shall not include
22 distributions from pensions, including defined benefit
23 or defined contribution plans, annuities, individual
24 retirement accounts, and deferred compensation plans
25 or any earnings attributable thereto so long as the
26 distribution is directly related to an individual's
27 documented retirement and received while the
28 individual is a nonresident of this state. If a
29 business, trade, profession, or occupation is carried
30 on partly within and partly without the state, only
31 the portion of the net income which is fairly and
32 equitably attributable to that part of the business,
33 trade, profession, or occupation carried on within the
34 state is allocated to Iowa for purposes of section
35 422.5, subsection 1, paragraph "j", and section 422.13
36 and income from any property, trust, estate, or other
37 source partly within and partly without the state is
38 allocated to Iowa in the same manner, except that
39 annuities, interest on bank deposits and interest-
40 bearing obligations, and dividends are allocated to
41 Iowa only to the extent to which they are derived from
42 a business, trade, profession, or occupation carried
43 on within the state.

44 b. A resident's income allocated to Iowa is the
45 income determined under section 422.7 reduced by items
46 of income, loss, and expenses from a subchapter S
47 corporation which makes an election pursuant to
48 section 422.36, subsection 5, paragraph "b", to be
49 taxed as a regular corporation, which passes directly
50 to the shareholders under provisions of the Internal

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1 Revenue Code, with the following adjustments:

2 (1) Add cash or value of property distributions
3 made to the extent paid from income upon which Iowa
4 income tax has not been paid as determined under rules
5 of the director.

6 (2) Subtract the amounts of distributions made in
7 subparagraph (1) that were, under rules of the
8 director, distributed to the shareholder to enable the
9 shareholder to pay federal income tax on items of
10 income, loss, and expenses from a subchapter S
11 corporation which makes an election pursuant to
12 section 422.36, subsection 5, paragraph "b", to be
13 taxed as a regular corporation, which pass directly to
14 the shareholders under provisions of the Internal
15 Revenue Code.

16 Sec. 23. Section 422.8, Code 1995, is amended by
17 adding the following new subsection:

18 NEW SUBSECTION. 6. If the resident or part-year
19 resident is a shareholder of a subchapter S
20 corporation which makes an election pursuant to
21 section 422.36, subsection 5, paragraph "b", to be
22 taxed as a regular corporation, subsections 1 and 3 do
23 not apply to any income taxes paid to another state or
24 foreign country on the income from the subchapter S
25 corporation.

26 Sec. 24. Section 422.32, subsection 4, Code
27 Supplement 1995, is amended to read as follows:

28 4. "Corporation" includes joint stock companies,
29 and associations organized for pecuniary profit, and
30 publicly traded partnerships and limited liability
31 companies taxed as corporations under the Internal
32 Revenue Code and any subchapter S corporation which
33 has in effect an election under section 422.36,
34 subsection 5, paragraph "b", to be taxed as a regular
35 corporation.

36 Sec. 25. Section 422.32, Code Supplement 1995, is
37 amended by adding the following new subsection:

38 NEW SUBSECTION. 11. The term "value-added
39 corporation" means a corporation that purchases,
40 receives, or holds personal property of any
41 description and which adds to its value by a process
42 of manufacturing, construction, processing, or
43 combining of different materials, and shall
44 specifically include the economic activity identified
45 in divisions C and D of the standard industrial
46 classification codes appearing in 13 C.F.R. ch. 1(1-1-
47 94 edition), with a view to selling the finished
48 product for gain or profit. A corporation engaged in
49 more than one business activity is a value-added
50 corporation if more than fifty percent of its gross

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1 receipts, figured on a three-year annual average, or
2 such shorter period as the corporation shall have been
3 in existence, are from the processes previously
4 identified.

5 Sec. 26. Section 422.35, unnumbered paragraph 1,
6 Code Supplement 1995, is amended to read as follows:

7 The term "net income" means the taxable income
8 before the net operating loss deduction, as properly
9 computed for federal income tax purposes under the
10 Internal Revenue Code, or in the case of subchapter S
11 corporations that make an election pursuant to section
12 422.36, subsection 5, paragraph "b", "net income"
13 means the sum of all items of distributive shares of
14 income, loss, and expenses of the corporation as
15 determined under rules of the director, with the
16 following adjustments:

17 Sec. 27. Section 422.36, subsection 5, Code 1995,
18 is amended to read as follows:

19 5. a. Where Unless an election is made under
20 paragraph "b" to be taxed under this division, where a
21 corporation is not subject to income tax and the
22 stockholders of such the corporation are taxed on the
23 corporation's income under the provisions of the
24 Internal Revenue Code, the same tax treatment shall
25 apply to such applies to the corporation and such the
26 stockholders for Iowa income tax purposes.

27 b. A subchapter S corporation which is a value-
28 added corporation which does business both within and
29 without the state may elect to be taxed as a regular
30 corporation under this division. The election shall
31 be made not later than the due date for filing its
32 return for the first taxable year for which the
33 election is to be effective, including any extensions
34 beyond that date, on a form provided by the director
35 and signed by the shareholders holding more than one-
36 half of the shares of stock of the corporation on the
37 last day of the first taxable year for which the
38 election is to be effective. The election shall be
39 effective for that taxable year and for subsequent
40 taxable years until revoked.

41 c. The corporation may revoke its election under
42 paragraph "b" by a revocation made not later than the
43 due date for filing its return for the taxable year
44 for which the revocation is to be effective, including
45 any extensions beyond that date, on a form provided by
46 the director and signed by shareholders holding more
47 than one-half of the shares of stock of the
48 corporation on the last day of the first taxable year
49 for which the revocation is to be effective. However,
50 a corporation that has made an election under

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1 paragraph "b" shall not be eligible to make an
2 election under this paragraph for revocation of the
3 election under paragraph "b" for any taxable year
4 before its fourth taxable year following the first
5 taxable year for which the election under paragraph
6 "b" was effective, unless the director consents to the
7 revocation.

8 Sec. 28. This division of this Act, being deemed
9 of immediate importance, takes effect upon enactment
10 and applies retroactively to January 1, 1996, for tax
11 years of individuals beginning on or after that date
12 and for tax years of corporations ending on or after
13 that date.

DIVISION V

QUALIFIED VENTURE CAPITAL COMPANY

15 Sec. 29. NEW SECTION. 15E.175 DEFINITIONS.

16 As used in this section and sections 15E.176 and
17 15E.177:

18 1. "Iowa business" means a business or industry,
19 incorporated or unincorporated, which meets all the
20 following criteria:

21 a. Has or will have, within thirty days after a
22 loan or investment is made by a qualified venture
23 capital company, at least fifty percent of its
24 employees or assets located in Iowa and agrees to
25 maintain at least fifty percent of its employees or
26 assets in Iowa following investment in the business by
27 a qualified venture capital company.

28 b. A business which is unable to raise equity
29 capital or obtain financing from conventional sources
30 in order to remain viable or to commence or expand its
31 ability to provide goods or services.

32 2. "Qualified venture capital company" means a
33 corporation, limited liability company, or a general
34 or limited partnership with its principal place of
35 business located within this state, which meets all of
36 the following requirements:

37 a. Has an initial private capitalization of not
38 less than twenty million dollars.

39 b. Is organized by the Iowa business investment
40 corporation, organized under division XV of this
41 chapter, to directly or indirectly through its
42 subsidiaries or affiliates invest in debt and equity
43 securities of Iowa businesses.

44 c. Seeks approval from the federal small business
45 administration to establish a small business
46 investment company that is incorporated in Iowa and
47 maintains its principal place of business in this
48 state the purpose of which includes increasing the
49 availability of funds for investment in and loans to

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1 Iowa businesses.

2 d. Will provide or arrange for managerial and
3 other advice, assistance, and support for Iowa
4 businesses.

5 e. Does not invest funds under this division for
6 the expansion of operations of an Iowa business in
7 another state.

8 3. "Taxpayer" means an entity subject to tax under
9 chapter 422, division III, chapter 422, division V, or
10 chapter 432.

11 4. "Tax year" means for entities subject to the
12 state corporate income tax or the state franchise tax
13 under chapter 422, division III or V, respectively,
14 the tax year as defined for those divisions or means
15 for insurance companies subject to the gross premiums
16 tax under chapter 432, the calendar year for which the
17 premiums are taxed.

18 Sec. 30. NEW SECTION. 15E.176 TAX CREDITS.

19 1. For tax years beginning on or after January 1,
20 1997, there is allowed a credit against that tax
21 imposed under the corporate income tax in chapter 422,
22 division III, the franchise tax in chapter 422,
23 division V, or the gross premiums tax in chapter 432,
24 for investments made by the taxpayer in a qualified
25 venture capital company whose purpose includes
26 establishing or expanding Iowa business.

27 2. The amount of credit allowed under subsection
28 1, subject to subsection 4, is computed as follows:

29 a. The amount of the qualified venture capital
30 company's investment in Iowa businesses is divided by
31 the amount of new cash invested in the qualified
32 venture capital company.

33 b. The resulting percentage, which shall not
34 exceed fifty percent, is multiplied by the amount of
35 the taxpayer's investment in the qualified venture
36 capital company.

37 c. The amount of the credit is equal to ten
38 percent of the product determined in paragraph "b".

39 d. The qualified venture capital company shall
40 compute as of the end of the qualified venture capital
41 company's tax year the amounts under paragraph "c" for
42 each tax year the qualified venture capital company is
43 entitled to the credit.

44 3. The qualified venture capital company is
45 allowed the credit as computed each year in subsection
46 2 for up to ten consecutive years beginning with the
47 first year for which the credit is taken.

48 If the amount of the credit exceeds the qualified
49 venture capital company's tax liability for the tax
50 year, the excess may be credited to the tax liability

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1 for the following five tax years or until depleted,
2 whichever is the earlier, and is in addition to any
3 other credit allowed under this section.

4 4. Notwithstanding the amount of credit computed
5 in subsection 2, the total amount of credits for all
6 qualified venture capital companies that shall be
7 allowed under subsection 1 for any fiscal year of the
8 qualified venture capital company shall not exceed one
9 million two hundred fifty thousand dollars and for all
10 fiscal years of the qualified venture capital company
11 shall not exceed twelve million five hundred thousand
12 dollars. In determining if the credit allowed has
13 exceeded the fiscal year limit, credits carried over
14 from a previous tax year are not counted.

15 5. The credit provided for in subsection 2, to the
16 extent not previously utilized, shall be freely
17 transferable to and by subsequent transferees for a
18 period of ten years from the date the credit is first
19 available to the qualified venture capital company.

20 Sec. 31. NEW SECTION. 15E.177 COORDINATION OF
21 RESOURCES.

22 If a qualified venture capital company is organized
23 by the Iowa business investment corporation on or
24 before December 31, 1997, within ninety days following
25 its organization, the qualified venture capital
26 company shall develop and submit a written proposal to
27 the shareholders of each business development finance
28 corporation organized pursuant to division XIII of
29 this chapter, calling for the investment of all the
30 assets of each business development finance
31 corporation in securities of the qualified venture
32 capital company. A notice of a special meeting of the
33 shareholders of the business development finance
34 corporation and the written proposal made to the
35 business development finance corporation by the
36 qualified venture capital company shall be delivered
37 to the shareholders of each business development
38 finance corporation entitled to vote at the special
39 shareholders meeting not less than ten nor more than
40 sixty days before the meeting date given by the
41 qualified venture capital company. Action on the
42 written proposal by the board of directors of the
43 business development finance corporation or any other
44 person shall not be required to call the special
45 meeting or authorize voting on the written proposal by
46 the shareholders of the business development finance
47 corporation. If at the special meeting of
48 shareholders of the business development finance
49 corporation or any recesses thereof, a majority of the
50 shareholders present or represented at the special

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1 meeting approve the investment proposed by the
2 qualified venture capital company, the business
3 development finance corporation shall immediately make
4 such an investment of all of its assets. The
5 investment by a business development finance
6 corporation of all of its assets in the qualified
7 venture capital corporation shall not be considered a
8 sale of assets other than in the usual and regular
9 course of business and division XIII of the Iowa
10 business development finance Act shall not apply to
11 the transaction. The qualified venture capital
12 company may make additional proposals as often as it
13 desires to the shareholders of each business
14 development finance corporation that did not approve
15 the initial investment proposal. Except for the
16 requirement that a written proposal be presented to
17 the shareholders within ninety days of the
18 organization of the qualified venture capital company,
19 the provisions of this section shall apply to all
20 additional proposals.

21 Sec. 32. Section 422.33, Code Supplement 1995, is
22 amended by adding the following new subsection:

23 NEW SUBSECTION. 9. There is allowed as a credit
24 against the tax determined in subsection 1 for a tax
25 year an amount equal to the qualified venture capital
26 credit as provided in section 15E.176.

27 Notwithstanding any other provision, the credit
28 allowed for in this subsection shall be applied prior
29 to all other credits allowed the taxpayer. The
30 taxpayer shall not receive for the same investment a
31 credit under subsection 8 and this subsection.

32 Sec. 33. Section 422.60, Code Supplement 1995, is
33 amended by adding the following new subsection:

34 NEW SUBSECTION. 4. There is allowed as a credit
35 against the tax determined in this division for a tax
36 year an amount equal to the qualified venture capital
37 credit as provided in section 15E.176.

38 Notwithstanding any other provision, the credit
39 allowed for in this subsection shall be applied prior
40 to all other credits allowed the taxpayer. The
41 allocation of revenues to a city or county under
42 section 422.65 shall be determined as if the credit
43 under this subsection had not been taken.

44 Sec. 34. Section 432.1, Code 1995, is amended by
45 adding the following new subsection:

46 NEW SUBSECTION. 5. There is allowed as a credit
47 against the tax determined in subsection 1 or 2 for a
48 tax year an amount equal to the qualified venture
49 capital credit as provided in section 15E.176.

50 Notwithstanding any other provision, the credit

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1 allowed for in this subsection shall be applied prior
2 to all other credits allowed the taxpayer.

3 Sec. 35. 1992 Iowa Acts, chapter 1244, section 1,
4 subsection 2, paragraph e, unnumbered paragraph 1, as
5 amended by 1993 Iowa Acts, chapter 180, section 46, as
6 amended by 1994 Iowa Acts, chapter 1201, section 29,
7 is amended to read as follows:

8 For transfer to the treasurer of state for the
9 purpose of facilitating the organization and private
10 capitalization of the small business investment
11 company or other entity under sections 15E.169 through
12 15E.171. If the small business investment company or
13 another entity for which the funds are to be used is
14 not organized ~~within thirty-six months of the~~
15 ~~effective date of this Act~~, unused funds shall revert
16 to the general fund of the state, however, if such an
17 entity is organized, the unused funds shall be
18 transferred irrevocably to the qualified venture
19 capital company or other entity for which the funds
20 are to be used:

21 \$ 200,000

22 Sec. 36. APPLICABILITY. This division of this Act
23 applies for tax years of entities subject to the state
24 corporate income tax or franchise tax which begin on
25 or after January 1, 1997. This division of this Act
26 applies for calendar years beginning on or after
27 January 1, 1997, for entities subject to the gross
28 premiums tax under chapter 432.

29 DIVISION VI

30 FAMILY FARM FEEDING OPERATIONS

31 Sec. 37. NEW SECTION. 175A.1 SHORT TITLE.

32 This chapter shall be known and may be cited as the
33 "Iowa Family Farm Animal Feeding Operations
34 Preservation Act".

35 Sec. 38. NEW SECTION. 175A.2 PURPOSE.

36 The purpose of this chapter is to address a grave
37 threat to traditional farmers who produce animals in
38 this state and who face capitalization barriers and
39 the consolidation of animal agriculture, which results
40 in fewer individuals engaged in farming. These
41 conditions result in a loss in population,
42 unemployment and a movement of persons from rural
43 communities to urban areas accompanied by added costs
44 to communities for the creation of new public
45 facilities and services. It is therefore necessary to
46 assist small and medium sized family farm animal
47 feeding operations in order to expand such operations
48 and preserve a way of life which has traditionally
49 supported Iowa's economy and communities.

50 Sec. 39. NEW SECTION. 175A.3 DEFINITIONS.

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- 1 1. "Animal feeding operation" means the same as
2 defined in section 455B.161.
- 3 2. "Animal feeding operation structure" means the
4 same as defined in section 455B.161.
- 5 3. "Animal weight capacity" means the same as
6 defined in section 455B.161.
- 7 4. "Authority" means the agricultural development
8 authority established pursuant to section 175.3.
- 9 5. "Family farm animal feeding operation" or
10 "operation" means an animal feeding operation located
11 on the land where the owner of the operation also
12 engages in farming activities other than animal
13 feeding operation activities, if all of the following
14 criteria are satisfied:
- 15 a. The total animal weight capacity of all animals
16 other than bovine animals owned by the person is two
17 hundred thousand pounds or less, and the total animal
18 weight capacity of bovine animals owned by the person
19 is four hundred thousand pounds or less.
- 20 b. A person holding an interest in the animal
21 feeding operation owns all animals confined and fed in
22 the animal feeding operation.
- 23 c. The person who owns the animal feeding
24 operation raises and harvests crops in the same or an
25 adjoining county where the animal feeding operation is
26 located.
- 27 d. The person who owns the animal feeding
28 operation is one of the following:
- 29 (1) A natural person.
- 30 (2) A general partnership composed exclusively of
31 natural persons.
- 32 e. Each person who holds an interest in the animal
33 feeding operation resides in this state.
- 34 f. The animal feeding operation is located
35 entirely within the state.
- 36 6. "Farming" means the same as defined in section
37 175.2.
- 38 7. "Lending institution" means a bank, trust
39 company, mortgage company, national banking
40 association, savings and loan association, life
41 insurance company, any state or federal governmental
42 agency or instrumentality, including without
43 limitation the federal land bank or any of its local
44 associations, or any other financial institution or
45 entity authorized to make farm operating loans in this
46 state.
- 47 8. "Low or moderate net worth" means:
- 48 a. For an individual, an aggregate net worth of
49 the individual and the individual's spouse and minor
50 children of less than two hundred thousand dollars.

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1 b. For any general partnership, an aggregate net
2 worth of all partners, including each partner's net
3 capital in the partnership, and of each partner's
4 spouse and minor children of less than three hundred
5 thousand dollars. However, the aggregate net worth of
6 each partner and that partner's spouse and minor
7 children shall not exceed two hundred thousand
8 dollars.

9 9. "Net worth" means a person's total assets minus
10 total liabilities as determined in accordance with
11 generally accepted accounting principles with
12 appropriate exceptions and exemptions reasonably
13 related to an equitable determination of a person's
14 net worth. Assets shall be valued at fair market
15 value.

16 10. "Note" means a bond anticipation note or other
17 obligation or evidence of indebtedness issued by the
18 authority pursuant to this chapter.

19 11. "Secured loan" means a financial obligation
20 secured by a chattel mortgage, security agreement, or
21 other instrument creating a lien on an interest in
22 depreciable agricultural property.

23 Sec. 40. NEW SECTION. 175A.4 ASSISTANCE
24 PROGRAMS.

25 1. The authority shall administer programs under
26 this section to assist family farm animal feeding
27 operations. The department of revenue and finance
28 shall assist the authority in administering this
29 section.

30 2. In order to assist a family farm animal feeding
31 operation in financing the operation, including by
32 assisting in whole or in part the acquisition of
33 animals, or the purchase of agricultural land, the
34 purchase of agricultural improvements or depreciable
35 agricultural property, the construction of buildings,
36 facilities, or animal feeding operation structures,
37 related to the operation, the authority shall do all
38 of the following:

39 a. Cooperate with any other state agency or the
40 federal government, including supplementing assistance
41 provided by another state agency and the federal
42 government.

43 b. Administer other programs provided under
44 chapter 175, including supplementing assistance
45 provided by other programs.

46 c. Provide certification necessary to allow owners
47 of operations to claim an income tax credit as
48 provided in section 175A.5, and a property tax
49 exemption pursuant to section 427.1.

50 d. Administer the following programs:

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1 (1) A loan guarantee program to provide for
2 guaranteeing of all or part of a loan made to the
3 operation.

4 (2) An interest buy-down program, in which the
5 authority contracts with a participating lending
6 institution to reduce the interest rate charged on a
7 loan to the operation. The authority shall determine
8 the amount that the rate is reduced by considering the
9 lending institution's customary loan rate for the type
10 of loan sought as certified to the authority by the
11 lending institution. As part of the contract, in
12 order to reimburse the lending institution for the
13 reduction of the interest rate on the loan, the
14 authority may agree to grant the lending institution
15 any amount foregone by reducing the interest rate on
16 that portion of the loan which is three hundred
17 thousand dollars or less. However, the amount
18 reimbursed shall not be more than fifty percent of the
19 amount of interest foregone by the lending institution
20 on the loan.

21 3. The amount of assistance awarded to a family
22 farm animal feeding operation shall be based on the
23 extent to which the following apply:

24 a. The operation has a low or moderate net worth.

25 b. The owner of the family farm animal feeding
26 operation utilizes a computer or recordkeeping system
27 designed to monitor herd performance, as approved by
28 Iowa state university.

29 c. The person managing the operation is actively
30 engaged in improving the management of the operation,
31 which may include participating in the livestock
32 producers assistance program provided pursuant to
33 section 266.39D, or employing a person qualified by
34 the American registry of professional animal science,
35 who is actively engaged in the profession of
36 consulting with livestock producers for the purpose of
37 increasing production or enhancing performance of
38 livestock.

39 4. In order to participate in a program
40 administered under this section, all of the following
41 must apply:

42 a. The family farm animal feeding operation or any
43 person holding an interest in the operation is not
44 classified as a habitual violator as provided in
45 section 455B.191.

46 b. The assistance provided by the authority under
47 this section is not used to construct, repair, or
48 expand an anaerobic lagoon or earthen manure storage
49 basin as defined in section 455B.161.

50 5. a. The authority shall adopt rules to

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1 administer this section, including the enforcement of
2 terms of a contract to which the authority is a party.
3 The authority may require a lending institution or a
4 family farm animal feeding operation to submit
5 evidence satisfactory to the authority that the
6 lending institution or operation has complied with the
7 authority's requirements.

8 b. The authority may inspect any records of a
9 lending institution or a family farm animal feeding
10 operation which are pertinent to the administration of
11 a program. In order to assure compliance with this
12 section and rules adopted pursuant to this section,
13 the authority may establish by rule appropriate
14 enforcement provisions, including but not limited to,
15 the payment of civil penalties by a lending
16 institution or operation. The authority may also
17 enforce the provisions of this section or terms of the
18 contract by bringing an action in any court of
19 competent jurisdiction to recover damages.

20 6. A lending institution and the borrower
21 participating in a program under this section shall
22 each pay to the authority one-half of an origination
23 fee which shall not exceed one percent of the loan.
24 In addition, the lending institution shall pay a fee
25 equal to twenty-five basis points on the loan to the
26 authority on an annual basis.

27 7. The fact that the family farm animal feeding
28 operation or the person who owns the operation has
29 received assistance, monetary or otherwise, from the
30 authority shall not prevent the operation from being
31 eligible for assistance under programs available under
32 this section.

33 Sec. 41. NEW SECTION. 175A.5 INCOME TAX CREDIT.

34 1. A family farm animal feeding operation which
35 receives at least ten thousand dollars in assistance
36 under section 175A.4 as certified by the authority
37 under section 175A.4 shall be entitled to receive a
38 tax credit equal to ten percent of all new investments
39 made in the operation not later than the tax year
40 following the tax year in which the operation receives
41 assistance under section 175A.4.

42 2. For purposes of this section, "new investment"
43 means the capitalized cost of all real and personal
44 property related to the family farm animal feeding
45 operation, including animals; buildings and animal
46 feeding operation structures qualifying under this
47 section; equipment; and other improvements to the
48 operation, purchased or otherwise acquired or
49 relocated to the operation. "New investment" does not
50 include intangible property, or furniture and

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1 furnishings. For the purposes of this section,
2 capitalized cost of property shall be determined in
3 accordance with accounting methods used by the
4 taxpayer in determining the taxpayer's income for
5 state tax purposes.

6 3. Any credit in excess of the tax liability for
7 the tax year may be applied to the tax liability for
8 the following ten years or until depleted, whichever
9 occurs first.

10 4. The department of revenue and finance shall
11 adopt any rules necessary to administer this section.

12 Sec. 42. NEW SECTION. 175A.6 FAMILY FARM ANIMAL
13 FEEDING OPERATION FUND.

14 1. A family farm animal feeding operation fund is
15 created within the state treasury under the control of
16 the authority. The fund shall consist of any moneys
17 appropriated by the general assembly, fees paid to the
18 authority, and any other moneys available to and
19 obtained or accepted by the authority from the federal
20 government or private sources for placement in the
21 fund. Moneys shall be deposited in the fund as
22 provided in section 175A.7. Not more than one hundred
23 fifty thousand dollars shall be available annually
24 from the fund for administration of section 175A.4.
25 The assets of the fund shall be used by the authority
26 only for carrying out the purposes of section 175A.1
27 and section 427.1, subsection 28.

28 2. In administering the fund the authority may do
29 all of the following:

30 a. Contract, sue and be sued, and adopt
31 administrative rules necessary to administer this
32 section. However, the authority shall not in any
33 manner directly or indirectly pledge the credit of the
34 state.

35 b. Authorize payment from the fund for costs,
36 commissions, attorney fees, and other reasonable
37 expenses, including expenses related to carrying out
38 duties necessary for administering programs provided
39 for under section 175A.4, including for guaranteeing
40 loans, and for the recovery of loan moneys guaranteed
41 or the management of property acquired in connection
42 with such loans.

43 3. Payments of interest, recaptures of awards, or
44 repayments of moneys provided in assistance under
45 section 175A.4 shall be deposited into the fund.
46 Section 8.33 does not apply to any moneys in the fund
47 until June 30, 2001. Notwithstanding section 12C.7,
48 interest or earnings on investments or time deposits
49 of the moneys in the fund shall be credited to the
50 fund.

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1 4. The fund is subject to an annual audit as
2 provided by the authority. Moneys in the fund, which
3 may be subject to warrants written by the director of
4 revenue and finance, shall be drawn upon the written
5 requisition of the authority's executive director.

6 Sec. 43. NEW SECTION. 175A.7 STANDING
7 APPROPRIATION.

8 For each fiscal year of the fiscal period beginning
9 July 1, 1996, and ending June 30, 2002, there is
10 appropriated twelve million dollars from the general
11 fund of the state to the family farm animal feeding
12 operation fund created in section 175A.6.

13 Sec. 44. Section 427.1, Code Supplement 1995, is
14 amended by adding the following new subsection:

15 NEW SUBSECTION. 28. The property of a family farm
16 animal feeding operation as defined in section 175A.3,
17 which receives at least ten thousand dollars in
18 assistance awarded and certified by the agricultural
19 development authority under section 175A.4 shall be
20 exempt from taxation for a period of five years, to
21 the extent provided in this subsection.

22 a. The exemption shall apply as follows:

23 (1) It begins on January 1 of the year following
24 the year in which the family farm animal feeding
25 operation receives assistance under section 175A.4.

26 (2) It is limited to the market value, as defined
27 in section 441.21, of the property of the family farm
28 animal feeding operation. If the property of the
29 family farm animal feeding operation is assessed with
30 other property as a unit, the exemption shall be
31 limited to the net market value of the property of the
32 family farm animal feeding operation determined as of
33 the assessment date.

34 b. In order to receive the exemption, the owner of
35 the operation must file for the exemption with the
36 assessing authority not later than the first of
37 February of the first year for which the exemption
38 applies, on forms provided by the agricultural
39 development authority. The application shall provide
40 a description of the family farm animal feeding
41 operation subject to the exemption. The application
42 shall be accompanied by a certificate of assistance
43 provided by the agricultural development authority.

44 c. The assessing authority shall retain a
45 permanent file of current exemptions filed in the
46 assessing authority's office. Not later than July 6
47 of each year, the assessing authority shall remit a
48 statement certifying the total amount of exemptions
49 allowed under this subsection. After receiving the
50 certification, the agricultural development authority

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1 shall draw warrants on the family farm animal feeding
2 operation fund created in section 175A.6 which shall
3 be payable to the county treasurer in the amount
4 certified by the assessing authority, and shall mail
5 the warrants to the county treasurers on August 15 of
6 each year. However, if the family farm animal feeding
7 operation fund does not have sufficient moneys
8 available to pay in full the total of the amounts
9 certified to the agricultural development authority,
10 the authority shall prorate unobligated and
11 unencumbered moneys in the fund to the county
12 treasurers.

13 d. If the county treasurer has received a
14 percentage amount of the amount certified to the
15 agricultural development authority, the county
16 treasurer shall for the following fiscal year grant
17 each exemption from the previous fiscal year an
18 exemption equal to the percentage amount which the
19 county treasurer was reimbursed for that exemption
20 unless the reimbursement for that exemption is fully
21 funded by February 1 preceding the next fiscal year.

22 Sec. 45. FUTURE REPEAL.

23 1. Sections 175A.5 and 175A.7 are repealed.

24 2. Section 427.1, subsection 28, is amended by
25 striking the subsection.

26 3. This section takes effect on July 1, 2002.

27 4. Notwithstanding this section, an income tax
28 credit granted pursuant to section 175A.5, or a
29 property tax exemption provided under section 427.1,
30 subsection 28, shall continue in effect and shall be
31 administered and enforced until its expiration as
32 provided in this division of this Act.

33 DIVISION VII

34 FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

35 Sec. 46. Section 425A.1, Code 1995, is amended to
36 read as follows:

37 425A.1 FAMILY FARM TAX CREDIT FUND.

38 The family farm tax credit fund is created in the
39 office of the treasurer of state. There shall be
40 transferred appropriated annually to the fund the
41 ~~first-ten-million-dollars-of-the-amount-annually~~
42 ~~appropriated-to-the-agricultural-land-credit-fund,~~
43 ~~provided-in-section-426.1~~ sum of thirty-five million
44 dollars. Any balance in the fund on June 30 shall
45 revert to the general fund.

46 Sec. 47. Section 425A.2, subsection 4, Code 1995,
47 is amended to read as follows:

48 4. "Designated person" means one of the following:

49 a. If the owner is an individual, the designated
50 person includes the owner of the tract or a person

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1 ~~related-to-the-owner-as,~~ the owner's spouse, parent,
2 ~~grandparent,~~ the owner's child, ~~grandchild,~~ or
3 ~~stepchild,~~ and their spouses, or the owner's relative
4 within the third degree of consanguinity, and the
5 relative's spouse.

6 b. If the owner is a partnership, a partner, or
7 the partner's spouse.

8 c. If the owner is a family farm corporation, a
9 family member who is a shareholder of the family farm
10 corporation or the shareholder's spouse.

11 d. If the owner is an authorized farm corporation,
12 a shareholder who owns at least fifty-one percent of
13 the stock of the authorized farm corporation or the
14 shareholder's spouse.

15 e. If the owner is an individual who leases the
16 tract to a family farm corporation, a shareholder of
17 the corporation if the combined stock of the family
18 farm corporation owned by the owner of the tract and
19 persons related to the owner as enumerated in
20 paragraph "a" is equal to at least fifty-one percent
21 of the stock of the family farm corporation.

22 f. If the owner is an individual who leases the
23 tract to a partnership, a partner if the combined
24 partnership interest owned by the owner of the tract
25 and persons related to the owner as enumerated in
26 paragraph "a" is equal to at least fifty-one percent
27 of the ownership interest of the partnership.

28 Sec. 48. Section 426.1, Code 1995, is amended to
29 read as follows:

30 426.1 AGRICULTURAL LAND CREDIT FUND.

31 There is created as a permanent fund in the office
32 of the treasurer of state a fund to be known as the
33 agricultural land credit fund, and for the purpose of
34 establishing and maintaining this fund for each fiscal
35 year there is appropriated ~~thereto~~ to the fund from
36 funds in the general fund not otherwise appropriated
37 the sum of ~~thirty-nine~~ twenty-nine million one hundred
38 thousand dollars ~~of which the first ten million~~
39 ~~dollars shall be transferred to and deposited into the~~
40 ~~family farm tax credit fund created in section 425A.1.~~
41 Any balance in said fund on June 30 shall revert to
42 the general fund.

43 Sec. 49. This division of this Act, being deemed
44 of immediate importance, takes effect upon enactment
45 and applies to family farm tax credits and
46 agricultural land credits allowed for property taxes
47 due and payable in fiscal years beginning on or after
48 July 1, 1996.

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DIVISION VIII
SCHOOL FUNDING

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1 Sec. 50. Section 257.1, subsection 2, unnumbered
2 paragraph 2, Code Supplement 1995, is amended to read
3 as follows:

4 For the budget year commencing July 1, ~~1991~~ 1996,
5 and for each succeeding budget year the regular
6 program foundation base per pupil is eighty-three
7 percent of the regular program state cost per pupil,
8 ~~except that the regular program foundation base per~~
9 ~~pupil for the portion of weighted enrollment that is~~
10 ~~additional enrollment because of special education is~~
11 ~~seventy-nine percent of the regular program state cost~~
12 ~~per pupil.~~ For the budget year commencing July 1,
13 ~~1991~~ 1996, and for each succeeding budget year the
14 special education support services foundation base is
15 ~~seventy-nine~~ eighty-three percent of the special
16 education support services state cost per pupil. The
17 combined foundation base is the sum of the regular
18 program foundation base and the special education
19 support services foundation base.

20 Sec. 51. EFFECTIVE DATE. This division of this
21 Act, being deemed of immediate importance, takes
22 effect upon enactment for calculating state foundation
23 aid for school budget years commencing on or after
24 July 1, 1996.

DIVISION IX

PROPERTY TAX STUDY

25
26
27 Sec. 52. The legislative council shall direct the
28 establishment of a legislative committee to study the
29 system of local government property taxation. The
30 committee shall conduct a comprehensive review of the
31 property tax system in Iowa, including identifying the
32 various classes of property taxpayers, the portion of
33 property taxes collected from each class of taxpayer,
34 the distribution of those taxes to local governments,
35 and the value of local government services received by
36 a class of taxpayers in relation to the amount of
37 property taxes paid by that class. The committee
38 shall also examine the current system of property tax
39 credits and exemptions allowed to taxpayers, tax
40 increment financing and tax abatement programs,
41 property tax credits and exemptions, the effect of tax
42 abatement programs, and tax increment financing on the
43 tax rates applied to the other classes of property,
44 and the general authority of local officials to abate
45 property taxes.

46 As an integral part of the collection of taxes by
47 local governments, the committee shall also review the
48 budgeting procedures and practices of local
49 governments, including the process of estimating and
50 spending ending fund balances; the authorization to

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1 use, or the practice of using, unexpended funds or
 2 ending fund balances for capital improvements or other
 3 nonrecurring expenditures; and the impact on property
 4 tax rates of actions of the school budget review
 5 committee, the state appeal board, the application of
 6 the property tax rollback, and the application of
 7 equalization orders issued by the department of
 8 revenue and finance.

9 The committee shall also review the use of property
 10 taxes as the sole or major source of funding for
 11 school, city, and county services and the use of
 12 alternate sources of revenues to pay for such
 13 services, the repayment of bonds or other debt
 14 obligations by local governments, the use of alternate
 15 sources of revenue to repay bonds or other debt
 16 obligations, and the current statutory requirements
 17 for the issuance of bonds or other debt obligations by
 18 local governments."

19 . Title page , line 12, by inserting after the
 20 word "credits;" the following: "increasing the school
 21 foundation base level for special education;".

By WILLIAM D. PALMER
 MICHAEL E. GRONSTAL
 EMIL J. HUSAK

S-5580 FILED MARCH 27, 1996

Senate Adopted
 3-28-96
 (P. 1126)

APRIL 1, 1996

SENATE FILE 2449

S-5593

1 Amend amendment S-5580, to the House amendment, S-
2 5574, to Senate File 2449, as amended, passed, and
3 reprinted by the Senate, as follows:

4 1. By striking page 1, line 1, through page 27,
5 line 21, and inserting the following:

6 "Amend the House amendment, S-5574, to Senate File
7 2449, as amended, passed, and reprinted by the Senate,
8 as follows:

9 1. By striking page 1, line 3, through page 6,
10 line 10, and inserting the following:

11 "_____. By striking everything after the enacting
12 clause and inserting the following:

13 "DIVISION I

14 INCOME TAX INDEXATION

15 Section 1. Section 422.4, subsection 1, paragraphs
16 a and d, Code 1995, are amended to read as follows:

17 a. "Annual inflation factor" means an index,
18 expressed as a percentage, determined by the
19 department by October 15 of the calendar year
20 preceding the calendar year for which the factor is
21 determined, which reflects the purchasing power of the
22 dollar as a result of inflation during the fiscal year
23 ending in the calendar year preceding the calendar
24 year for which the factor is determined. In
25 determining the annual inflation factor, the
26 department shall use the annual percent change, but
27 not less than zero percent, in the ~~implicit-price~~
28 ~~deflator for the gross-national-product~~ gross domestic
29 product price deflator computed for the second quarter
30 of the calendar year by the bureau of economic
31 analysis of the United States department of commerce
32 and shall add ~~one-half~~ all of that percent change to
33 one hundred percent. The annual inflation factor and
34 the cumulative inflation factor shall each be
35 expressed as a percentage rounded to the nearest one-
36 tenth of one percent. The annual inflation factor
37 shall not be less than one hundred percent.

38 d. Notwithstanding the computation of the annual
39 inflation factor under paragraph "a", the annual
40 inflation factor is one hundred percent for any
41 calendar year in which the unobligated state general
42 fund balance on June 30 as certified by the director
43 of the department of management by October 10, is less
44 than sixty million dollars. Notwithstanding section
45 8.58, in determining the unobligated state general
46 fund balance on June 30, unobligated moneys in the
47 cash reserve fund and Iowa economic emergency fund on
48 June 30 shall be counted as part of the unobligated
49 state general fund balance for purposes of this
50 paragraph.

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1 Sec. 2. Section 422.4, subsection 2, paragraph a,
 2 Code 1995, is amended to read as follows:
 3 a. "Annual standard deduction factor" means an
 4 index, expressed as a percentage, determined by the
 5 department by October 15 of the calendar year
 6 preceding the calendar year for which the factor is
 7 determined, which reflects the purchasing power of the
 8 dollar as a result of inflation during the fiscal year
 9 ending in the calendar year preceding the calendar
 10 year for which the factor is determined. In
 11 determining the annual standard deduction factor, the
 12 department shall use the annual percent change, but
 13 not less than zero percent, in the implicit-price
 14 ~~deflator for the gross national product~~ gross domestic
 15 product price deflator computed for the second quarter
 16 of the calendar year by the bureau of economic
 17 analysis of the United States department of commerce
 18 and shall add ~~one-half~~ all of that percent change to
 19 one hundred percent. The annual standard deduction
 20 factor and the cumulative standard deduction factor
 21 shall each be expressed as a percentage rounded to the
 22 nearest one-tenth of one percent. The annual standard
 23 deduction factor shall not be less than one hundred
 24 percent.

25 Sec. 3. This division of this Act, being deemed of
 26 immediate importance, takes effect upon enactment and
 27 applies to the computation of the annual inflation
 28 factor and annual standard deduction factor for
 29 calendar years beginning on or after January 1, 1996.
 30 The department of revenue and finance shall adjust the
 31 annual inflation factor and annual standard deduction
 32 factor previously computed for the 1996 calendar year
 33 to reflect the change made in the computation of those
 34 factors in this Act.

35 DIVISION II
 36 INHERITANCE TAX

37 Sec. 4. Section 450.9, subsections 2 and 3, Code
 38 1995, are amended to read as follows:

39 2. Each son and daughter, including legally
 40 adopted sons and daughters, or stepsons and
 41 stepdaughters, or biological sons and daughters
 42 entitled to inherit under the law of this state, fifty
 43 two hundred thousand dollars.

44 3. Father or mother, fifteen fifty thousand
 45 dollars.

46 Sec. 5. Section 450.9, Code 1995, is amended by
 47 adding the following new subsection after subsection
 48 3:

49 NEW SUBSECTION. 3A. Each grandchild, fifty
 50 thousand dollars.

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1 Sec. 6. This division of this Act takes effect
2 July 1 following enactment of the division and applies
3 to the estates of decedents dying on or after that
4 date.

DIVISION III

HOMESTEAD, MILITARY, AND LOW-INCOME
TAX CREDIT AND REIMBURSEMENT

8 Sec. 7. Section 8.59, Code 1995, is amended to
9 read as follows:

10 8.59 APPROPRIATIONS FREEZE.

11 Notwithstanding contrary provisions of the Code,
12 the amounts appropriated under the applicable sections
13 of the Code for fiscal years commencing on or after
14 July 1, 1993, are limited to those amounts expended
15 under those sections for the fiscal year commencing
16 July 1, 1992. If an applicable section appropriates
17 moneys to be distributed to different recipients and
18 the operation of this section reduces the total amount
19 to be distributed under the applicable section, the
20 moneys shall be prorated among the recipients. As
21 used in this section, "applicable sections" means the
22 following sections: 53.50, 229.35, 230.8, 230.11,
23 405A.8, 411.20, ~~425.17~~-~~425.39~~-~~426A.17~~, 663.44, and
24 822.5.

25 Sec. 8. Section 425.1, subsection 1, Code 1995, is
26 amended to read as follows:

27 1. A homestead credit fund is created. There is
28 appropriated annually from the general fund of the
29 state to the department of revenue and finance to be
30 credited to the homestead credit fund, ~~an amount~~
31 sufficient the sum of one hundred fourteen million
32 four hundred thousand dollars to implement this
33 chapter.

34 The director of revenue and finance shall issue
35 warrants on the homestead credit fund payable to the
36 county treasurers of the several counties of the state
37 under this chapter.

38 Sec. 9. Section 425.17, subsection 2, paragraph b,
39 Code 1995, is amended to read as follows:

40 b. A person filing a claim for ~~credit-or~~
41 reimbursement under this division who has attained the
42 age of twenty-three years on or before December 31 of
43 the base year or was a head of household on December
44 31 of the base year, as defined in the Internal
45 Revenue Code, but has not attained the age or
46 disability status described in paragraph "a", and was
47 domiciled in this state during the entire base year,
48 and is domiciled in this state at the time the claim
49 is filed or at the time of the person's death in the
50 case of a claim filed by the executor or administrator

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1 of the claimant's estate, and was not claimed as a
2 dependent on any other person's tax return for the
3 base year.

4 Sec. 10. Section 425.17, subsection 2, unnumbered
5 paragraph 2, Code 1995, is amended to read as follows:

6 "Claimant" under paragraph "a" or "b" includes a
7 vendee in possession under a contract for deed and may
8 include one or more joint tenants or tenants in
9 common. In the case of a claim for rent constituting
10 property taxes paid, the claimant shall have rented
11 the property during any part of the base year. If a
12 homestead is occupied by two or more persons, and more
13 than one person is able to qualify as a claimant, the
14 persons may determine among them who will be the
15 claimant. If they are unable to agree, the matter
16 shall be referred to the director of revenue and
17 finance not later than June 1 of each year and the
18 director's decision is final.

19 Sec. 11. Section 425.23, subsection 1, paragraph
20 b, Code 1995, is amended by striking the paragraph and
21 inserting in lieu thereof the following:

22 b. The reimbursement for a claimant described in
23 section 425.17, subsection 2, paragraph "b", shall be
24 determined as follows:

| 25 26 If the household 27 income is: | Percent of rent constituting property taxes paid allowed as a reimbursement: |
|--|--|
| 28 \$ 0 - 9,999.99 | 50 |
| 29 10,000 - 13,999.99 | 42 |
| 30 14,000 - 17,999.99 | 35 |
| 31 18,000 - 20,999.99 | 25 |
| 32 21,000 - 23,999.99 | 17 |
| 33 24,000 - 26,999.99 | 12 |

34 Sec. 12. Section 425.23, subsection 3, paragraph
35 a, Code 1995, is amended to read as follows:

36 a. A person who is eligible to file a claim for
37 credit for property taxes due and who has a household
38 income of six thousand dollars or less and who has an
39 unpaid special assessment levied against the homestead
40 may file a claim with the county treasurer that the
41 claimant had a household income of six thousand
42 dollars or less and that an unpaid special assessment
43 is presently levied against the homestead. The
44 department shall provide to the respective treasurers
45 the forms necessary for the administration of this
46 subsection. The claim shall be filed not later than
47 September 30 of each year. Upon the filing of the
48 claim, interest for late payment shall not accrue
49 against the amount of the unpaid special assessment
50 due and payable. The claim filed by the claimant

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1 constitutes a claim for credit of an amount equal to
2 the actual amount due upon the unpaid special
3 assessment, plus interest, payable during the fiscal
4 year for which the claim is filed against the
5 homestead of the claimant. However, where the
6 ~~claimant is an individual described in section 425.17,~~
7 ~~subsection 2, paragraph "b", and the tentative credit~~
8 ~~is determined according to the schedule in section~~
9 ~~425.23, subsection 1, paragraph "b", subparagraph (2),~~
10 ~~the claim filed constitutes a claim for credit of an~~
11 ~~amount equal to one-half of the actual amount due and~~
12 ~~payable during the fiscal year. The department of~~
13 revenue and finance shall, upon the filing of the
14 claim with the department by the treasurer, pay that
15 amount of the unpaid special assessment during the
16 current fiscal year to the treasurer. The treasurer
17 shall submit the claims to the director of revenue and
18 finance not later than October 15 of each year. The
19 director of revenue and finance shall certify the
20 amount of reimbursement due each county for unpaid
21 special assessment credits allowed under this
22 subsection. The amount of reimbursement due each
23 county shall be paid by the director of revenue and
24 finance on October 20 of each year, drawn upon
25 warrants payable to the respective treasurer. There
26 is appropriated annually from the general fund of the
27 state to the department of revenue and finance an
28 amount sufficient to carry out the provisions of this
29 subsection. The treasurer shall credit any moneys
30 received from the department against the amount of the
31 unpaid special assessment due and payable on the
32 homestead of the claimant.

33 Sec. 13. Section 425.24, Code 1995, is amended to
34 read as follows:

35 425.24 MAXIMUM PROPERTY TAX FOR PURPOSE OF CREDIT
36 OR REIMBURSEMENT.

37 In any case in which property taxes due or rent
38 constituting property taxes paid for any household
39 exceeds one thousand dollars or six hundred dollars in
40 the case of a claimant described in section 425.17,
41 subsection 2, paragraph "b", the amount of property
42 taxes due or rent constituting property taxes paid
43 shall be deemed to have been one thousand dollars or
44 six hundred dollars in the case of a claimant
45 described in section 425.17, subsection 2, paragraph
46 "b", for purposes of this division.

47 Sec. 14. Section 425.39, Code 1995, is amended to
48 read as follows:

49 1. The extraordinary property tax credit and
50 reimbursement fund is created. There is appropriated

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1 annually from the general fund of the state to the
2 department of revenue and finance to be credited to
3 the extraordinary property tax credit and
4 reimbursement fund, from funds not otherwise
5 appropriated, ~~an amount sufficient~~ the sum of twelve
6 million five hundred thousand dollars to implement
7 this division.

8 2. If the amount appropriated under subsection 17
9 ~~as limited by section 8-597~~, plus any supplemental
10 appropriation made for purposes of this section for a
11 fiscal year is insufficient to pay all claims in full,
12 the director shall pay, in full, all claims to be paid
13 during the fiscal year for reimbursement of rent
14 constituting property taxes paid or if moneys are
15 insufficient to pay all such claims on a pro rata
16 basis. If the amount of claims for credit for
17 property taxes due to be paid during the fiscal year
18 exceed the amount remaining after payment to renters,
19 the director of revenue and finance shall prorate the
20 payments to the counties for the property tax credit.
21 In order for the director to carry out the
22 requirements of this subsection, notwithstanding any
23 provision to the contrary in this division, claims for
24 reimbursement for rent constituting property taxes
25 paid filed before May 1 of the fiscal year shall be
26 eligible to be paid in full during the fiscal year and
27 those claims filed on or after May 1 of the fiscal
28 year shall be eligible to be paid during the following
29 fiscal year and the director is not required to make
30 payments to counties for the property tax credit
31 before June 15 of the fiscal year.

32 Sec. 15. Section 425.40, Code 1995, is amended to
33 read as follows:

34 425.40 LOW-INCOME FUND CREATED.

35 1. A low-income ~~tax-credit-and~~ rent reimbursement
36 fund is created. There is appropriated annually from
37 the general fund of the state to the low-income rent
38 reimbursement fund the sum of thirteen million five
39 hundred thousand dollars to fund rent reimbursements
40 under this division.

41 2. If the amount appropriated under subsection 1
42 plus any supplemental appropriation made for purposes
43 of this section for a fiscal year is insufficient to
44 pay all claims in full, the director shall pay, ~~in~~
45 ~~full, all claims to be paid during the fiscal year for~~
46 ~~reimbursement of rent constituting property taxes paid~~
47 ~~or if moneys are insufficient to pay~~ all such claims
48 on a pro rata basis. ~~If the amount of claims for~~
49 ~~credit for property taxes due to be paid during the~~
50 ~~fiscal year exceed the amount remaining after payment~~

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~~1 to-renters,--the-director-of-revenue-and-finance-shall~~
~~2 prorate-the-payments-to-the-counties-for-the-property~~
~~3 tax-credit. In order for the director to carry out~~
4 the requirements of this subsection, notwithstanding
5 any provision to the contrary in this division, claims
6 for reimbursement for rent constituting property taxes
7 paid filed before May 1 of the fiscal year shall be
8 eligible to be paid ~~in-full~~ during the fiscal year and
9 those claims filed on or after May 1 of the fiscal
10 year shall be eligible to be paid during the following
11 fiscal year ~~and-the-director-is-not-required-to-make~~
~~12 payments-to-counties-for-the-property-tax-credit~~
~~13 before-June-15-of-the-fiscal-year.~~

14 Sec. 16. Section 426A.1, Code 1995, is amended to
15 read as follows:

16 426A.1 APPROPRIATION.

17 There is appropriated from the general fund of the
18 state the ~~amounts-necessary~~ sum of two million eight
19 hundred thousand dollars to fund the credits provided
20 under this chapter.

21 Sec. 17. This division of this Act takes effect
22 July 1, 1996, and applies to homestead, military
23 service, and low-income tax credit and rent
24 reimbursement claims payable in fiscal years beginning
25 on or after July 1, 1996.

26 DIVISION IV

27 SUBCHAPTER S CORPORATIONS

28 Sec. 18. Section 422.4, Code 1995, is amended by
29 adding the following new subsection:

30 NEW SUBSECTION. 15A. "Subchapter S corporation"
31 or "S corporation" means a corporation for which a
32 valid election under section 1362(a) of the Internal
33 Revenue Code is in effect.

34 Sec. 19. Section 422.5, subsection 1, paragraph j,
35 Code 1995, is amended to read as follows:

36 j. (1) The tax imposed upon the taxable income of
37 a nonresident shall be computed by reducing the amount
38 determined pursuant to paragraphs "a" through "i" by
39 the amounts of nonrefundable credits under this
40 division and by multiplying this resulting amount by a
41 fraction of which the nonresident's net income
42 allocated to Iowa, as determined in section 422.8,
43 subsection 2, paragraph "a", is the numerator and the
44 nonresident's total net income computed under section
45 422.7 is the denominator. This provision also applies
46 to individuals who are residents of Iowa for less than
47 the entire tax year.

48 (2) The tax imposed upon the taxable income of a
49 resident shareholder in a subchapter S corporation
50 which makes an election pursuant to section 422.36,

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1 subsection 5, paragraph "b", to be taxed as a regular
2 corporation, shall be computed by reducing the amount
3 determined pursuant to paragraphs "a" through "i" by
4 the amounts of nonrefundable credits under this
5 division and by multiplying this resulting amount by a
6 fraction of which the resident's net income allocated
7 to Iowa, as determined in section 422.8, subsection 2,
8 paragraph "b", is the numerator and the resident's
9 total net income as computed under section 422.7 is
10 the denominator. This provision also applies to
11 individuals who are residents of Iowa for less than
12 the entire tax year.

13 (a) In the case of a resident or part-year
14 resident shareholder in a subchapter S corporation
15 which makes an election under section 422.36,
16 subsection 5, paragraph "b", to be taxed as a regular
17 corporation, a taxpayer must completely fill out the
18 return, determine the taxpayer's income tax as if the
19 taxpayer is not a resident shareholder in a
20 corporation which makes an election pursuant to
21 section 422.36, subsection 5, paragraph "b", and pay
22 the amount of tax which is owed. The taxpayer shall
23 then recompute the taxpayer's income tax liability
24 pursuant to this subparagraph on a special return.
25 This special return shall be filed with the regular
26 return and constitutes a claim for refund of the
27 difference between the amount of tax the taxpayer paid
28 on the regular return and the amount of tax determined
29 on the special return. However, if the amount of tax
30 determined on the special return exceeds the amount of
31 tax paid on the regular return, the taxpayer shall pay
32 the additional amount of tax which is owed on the
33 special return.

34 (b) For any tax year, the aggregate amount of
35 refund claims that shall be paid pursuant to this
36 subparagraph in excess of revenue gains shall not
37 exceed three million five hundred thousand dollars.
38 If, for a tax year, the aggregate amount of refund
39 claims filed pursuant to this subparagraph in excess
40 of revenue gains exceeds three million five hundred
41 thousand dollars, each claim for refund shall be paid
42 on a pro rata basis so that the aggregate amount of
43 refund claims in excess of revenue gains does not
44 exceed three million five hundred thousand dollars.
45 For purposes of the calculation of the three million
46 five hundred thousand dollar limitation provided by
47 this subparagraph subdivision, the department shall
48 take into account all revenue gains as well as revenue
49 losses resulting from the application of the following
50 provisions, including, without limitation, revenue

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1 gains arising when the tax calculated under this
2 subparagraph is greater, revenue gains resulting from
3 the denial of tax credits under section 422.8,
4 subsection 6, revenue gains resulting from the
5 taxation of additional income under section 422.7,
6 subsection 35, and revenue gains resulting from the
7 imposition of corporate income taxes on corporations
8 making the election specified in section 422.36,
9 subsection 5, paragraph "b". In the case where refund
10 claims are not allowed in full, the amount of the
11 refund to which the taxpayer is entitled under this
12 subparagraph is the pro rata amount that was paid and
13 the taxpayer is not entitled to a refund of the unpaid
14 portion and is not entitled to carry that amount
15 forward or backward to another tax year. Taxpayers
16 shall not use refunds as estimated payments for the
17 succeeding tax year. The department shall determine
18 by July 1 of the tax year following the tax year for
19 which the refund claim is filed if the aggregate
20 amount of refund claims in excess of revenue gains
21 exceeds three million five hundred thousand dollars
22 for the tax year. Notwithstanding any provision,
23 interest shall not be due on any refund claims that
24 are paid by September 1 of the tax year following the
25 tax year for which the refund claim is filed. For
26 taxpayers that are fiscal year filers, the amount of
27 the refund claim allowed shall be in the same ratio as
28 the refund claims allowed for the tax year in which
29 the taxpayer's fiscal year began.

30 Sec. 20. Section 422.5, subsection 1, paragraph k,
31 subparagraph (3), unnumbered paragraph 3, Code 1995,
32 is amended to read as follows:

33 In the case of a resident, including a resident
34 estate or trust, the state's apportioned share of the
35 state alternative minimum tax is one hundred percent
36 of the state alternative minimum tax computed in this
37 subsection. In the case of a resident or part-year
38 resident shareholder in a subchapter S corporation
39 which makes an election under section 422.36,
40 subsection 5, paragraph "b" to be taxed as a regular
41 corporation and a nonresident, including a nonresident
42 estate or trust, or an individual, estate, or trust
43 that is domiciled in the state for less than the
44 entire tax year, the state's apportioned share of the
45 state alternative minimum tax is the amount of tax
46 computed under this subsection, reduced by the
47 applicable credits in sections 422.10 through 422.12
48 and this result multiplied by a fraction with a
49 numerator of the sum of state net income allocated to
50 Iowa as determined in section 422.8, subsection 2,

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1 paragraph "a" or "b", as applicable, plus tax
2 preference items, adjustments, and losses under
3 subparagraph (1) attributable to Iowa and with a
4 denominator of the sum of total net income computed
5 under section 422.7 plus all tax preference items,
6 adjustments, and losses under subparagraph (1). In
7 computing this fraction, those items excludable under
8 subparagraph (1) shall not be used in computing the
9 tax preference items. Married taxpayers electing to
10 file separate returns or separately on a combined
11 return must allocate the minimum tax computed in this
12 subsection in the proportion that each spouse's
13 respective preference items, adjustments, and losses
14 under subparagraph (1) bear to the combined preference
15 items, adjustments, and losses under subparagraph (1)
16 of both spouses.

17 Sec. 21. Section 422.7, Code Supplement 1995, is
18 amended by adding the following new subsection:

19 NEW SUBSECTION. 35. In determining gain or loss
20 from the sale or other disposition of stock of a
21 subchapter S corporation which makes an election
22 pursuant to section 422.36, subsection 5, paragraph
23 "b" to be taxed as a regular corporation, the basis of
24 a taxpayer in that stock shall be adjusted for Iowa
25 income tax purposes under rules of the director to
26 reflect any adjustment in Iowa income taxes paid by
27 the taxpayer pursuant to section 422.5, subsection 1,
28 paragraph "j", subparagraph (2).

29 Sec. 22. Section 422.8, subsection 2, Code 1995,
30 is amended to read as follows:

31 2. a. Nonresident's net income allocated to Iowa
32 is the net income, or portion thereof of the net
33 income, which is derived from a business, trade,
34 profession, or occupation carried on within this state
35 or income from any property, trust, estate, or other
36 source within Iowa. However, income derived from a
37 business, trade, profession, or occupation carried on
38 within this state and income from any property, trust,
39 estate, or other source within Iowa shall not include
40 distributions from pensions, including defined benefit
41 or defined contribution plans, annuities, individual
42 retirement accounts, and deferred compensation plans
43 or any earnings attributable thereto so long as the
44 distribution is directly related to an individual's
45 documented retirement and received while the
46 individual is a nonresident of this state. If a
47 business, trade, profession, or occupation is carried
48 on partly within and partly without the state, only
49 the portion of the net income which is fairly and
50 equitably attributable to that part of the business,

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1 trade, profession, or occupation carried on within the
2 state is allocated to Iowa for purposes of section
3 422.5, subsection 1, paragraph "j", and section 422.13
4 and income from any property, trust, estate, or other
5 source partly within and partly without the state is
6 allocated to Iowa in the same manner, except that
7 annuities, interest on bank deposits and interest-
8 bearing obligations, and dividends are allocated to
9 Iowa only to the extent to which they are derived from
10 a business, trade, profession, or occupation carried
11 on within the state.

12 b. A resident's income allocated to Iowa is the
13 income determined under section 422.7 reduced by items
14 of income, loss, and expenses from a subchapter S
15 corporation which makes an election pursuant to
16 section 422.36, subsection 5, paragraph "b", to be
17 taxed as a regular corporation, which passes directly
18 to the shareholders under provisions of the Internal
19 Revenue Code, with the following adjustments:

20 (1) Add cash or value of property distributions
21 made to the extent paid from income upon which Iowa
22 income tax has not been paid as determined under rules
23 of the director.

24 (2) Subtract the amounts of distributions made in
25 subparagraph (1) that were, under rules of the
26 director, distributed to the shareholder to enable the
27 shareholder to pay federal income tax on items of
28 income, loss, and expenses from a subchapter S
29 corporation which makes an election pursuant to
30 section 422.36, subsection 5, paragraph "b", to be
31 taxed as a regular corporation, which pass directly to
32 the shareholders under provisions of the Internal
33 Revenue Code.

34 Sec. 23. Section 422.8, Code 1995, is amended by
35 adding the following new subsection:

36 NEW SUBSECTION. 6. If the resident or part-year
37 resident is a shareholder of a subchapter S
38 corporation which makes an election pursuant to
39 section 422.36, subsection 5, paragraph "b", to be
40 taxed as a regular corporation, subsections 1 and 3 do
41 not apply to any income taxes paid to another state or
42 foreign country on the income from the subchapter S
43 corporation.

44 Sec. 24. Section 422.32, subsection 4, Code
45 Supplement 1995, is amended to read as follows:

46 4. "Corporation" includes joint stock companies,
47 and associations organized for pecuniary profit, and
48 publicly traded partnerships and limited liability
49 companies taxed as corporations under the Internal
50 Revenue Code and any subchapter S corporation which

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1 has in effect an election under section 422.36,
2 subsection 5, paragraph "b", to be taxed as a regular
3 corporation.

4 Sec. 25. Section 422.32, Code Supplement 1995, is
5 amended by adding the following new subsection:

6 NEW SUBSECTION. 11. The term "value-added
7 corporation" means a corporation that purchases,
8 receives, or holds personal property of any
9 description and which adds to its value by a process
10 of manufacturing, construction, processing, or
11 combining of different materials, and shall
12 specifically include the economic activity identified
13 in divisions C and D of the standard industrial
14 classification codes appearing in 13 C.F.R. ch. 1(1-1-
15 94 edition), with a view to selling the finished
16 product for gain or profit. A corporation engaged in
17 more than one business activity is a value-added
18 corporation if more than fifty percent of its gross
19 receipts, figured on a three-year annual average, or
20 such shorter period as the corporation shall have been
21 in existence, are from the processes previously
22 identified.

23 Sec. 26. Section 422.35, unnumbered paragraph 1,
24 Code Supplement 1995, is amended to read as follows:

25 The term "net income" means the taxable income
26 before the net operating loss deduction, as properly
27 computed for federal income tax purposes under the
28 Internal Revenue Code, or in the case of subchapter S
29 corporations that make an election pursuant to section
30 422.36, subsection 5, paragraph "b", "net income"
31 means the sum of all items of distributive shares of
32 income, loss, and expenses of the corporation as
33 determined under rules of the director, with the
34 following adjustments:

35 Sec. 27. Section 422.36, subsection 5, Code 1995,
36 is amended to read as follows:

37 5. a. Where Unless an election is made under
38 paragraph "b" to be taxed under this division, where a
39 corporation is not subject to income tax and the
40 stockholders of such the corporation are taxed on the
41 corporation's income under the provisions of the
42 Internal Revenue Code, the same tax treatment shall
43 apply to such applies to the corporation and such the
44 stockholders for Iowa income tax purposes.

45 b. A subchapter S corporation which is a value-
46 added corporation which does business both within and
47 without the state may elect to be taxed as a regular
48 corporation under this division. The election shall
49 be made not later than the due date for filing its
50 return for the first taxable year for which the

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1 election is to be effective, including any extensions
2 beyond that date, on a form provided by the director
3 and signed by the shareholders holding more than one-
4 half of the shares of stock of the corporation on the
5 last day of the first taxable year for which the
6 election is to be effective. The election shall be
7 effective for that taxable year and for subsequent
8 taxable years until revoked.

9 c. The corporation may revoke its election under
10 paragraph "b" by a revocation made not later than the
11 due date for filing its return for the taxable year
12 for which the revocation is to be effective, including
13 any extensions beyond that date, on a form provided by
14 the director and signed by shareholders holding more
15 than one-half of the shares of stock of the
16 corporation on the last day of the first taxable year
17 for which the revocation is to be effective. However,
18 a corporation that has made an election under
19 paragraph "b" shall not be eligible to make an
20 election under this paragraph for revocation of the
21 election under paragraph "b" for any taxable year
22 before its fourth taxable year following the first
23 taxable year for which the election under paragraph
24 "b" was effective, unless the director consents to the
25 revocation.

26 Sec. 28. This division of this Act, being deemed
27 of immediate importance, takes effect upon enactment
28 and applies retroactively to January 1, 1996, for tax
29 years of individuals beginning on or after that date
30 and for tax years of corporations ending on or after
31 that date.

DIVISION V

QUALIFIED VENTURE CAPITAL COMPANY

34 Sec. 29. NEW SECTION. 15E.175 DEFINITIONS.

35 As used in this section and sections 15E.176 and
36 15E.177:

37 1. "Iowa business" means a business or industry,
38 incorporated or unincorporated, which meets all the
39 following criteria:

40 a. Has or will have, within thirty days after a
41 loan or investment is made by a qualified venture
42 capital company, at least fifty percent of its
43 employees or assets located in Iowa and agrees to
44 maintain at least fifty percent of its employees or
45 assets in Iowa following investment in the business by
46 a qualified venture capital company.

47 b. A business which is unable to raise equity
48 capital or obtain financing from conventional sources
49 in order to remain viable or to commence or expand its
50 ability to provide goods or services.

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- 1 2. "Qualified venture capital company" means a
2 corporation, limited liability company, or a general
3 or limited partnership with its principal place of
4 business located within this state, which meets all of
5 the following requirements:
- 6 a. Has an initial private capitalization of not
7 less than twenty million dollars.
- 8 b. Is organized by the Iowa business investment
9 corporation, organized under division XV of this
10 chapter, to directly or indirectly through its
11 subsidiaries or affiliates invest in debt and equity
12 securities of Iowa businesses.
- 13 c. Seeks approval from the federal small business
14 administration to establish a small business
15 investment company that is incorporated in Iowa and
16 maintains its principal place of business in this
17 state the purpose of which includes increasing the
18 availability of funds for investment in and loans to
19 Iowa businesses.
- 20 d. Will provide or arrange for managerial and
21 other advice, assistance, and support for Iowa
22 businesses.
- 23 e. Does not invest funds under this division for
24 the expansion of operations of an Iowa business in
25 another state.
- 26 3. "Taxpayer" means an entity subject to tax under
27 chapter 422, division III, chapter 422, division V, or
28 chapter 432.
- 29 4. "Tax year" means for entities subject to the
30 state corporate income tax or the state franchise tax
31 under chapter 422, division III or V, respectively,
32 the tax year as defined for those divisions or means
33 for insurance companies subject to the gross premiums
34 tax under chapter 432, the calendar year for which the
35 premiums are taxed.
- 36 Sec. 30. NEW SECTION. 15E.176 TAX CREDITS.
- 37 1. For tax years beginning on or after January 1,
38 1997, there is allowed a credit against that tax
39 imposed under the corporate income tax in chapter 422,
40 division III, the franchise tax in chapter 422,
41 division V, or the gross premiums tax in chapter 432,
42 for investments made by the taxpayer in a qualified
43 venture capital company whose purpose includes
44 establishing or expanding Iowa business.
- 45 2. The amount of credit allowed under subsection
46 1, subject to subsection 4, is computed as follows:
- 47 a. The amount of the qualified venture capital
48 company's investment in Iowa businesses is divided by
49 the amount of new cash invested in the qualified
50 venture capital company.

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1 b. The resulting percentage, which shall not
2 exceed fifty percent, is multiplied by the amount of
3 the taxpayer's investment in the qualified venture
4 capital company.

5 c. The amount of the credit is equal to ten
6 percent of the product determined in paragraph "b".

7 d. The qualified venture capital company shall
8 compute as of the end of the qualified venture capital
9 company's tax year the amounts under paragraph "c" for
10 each tax year the qualified venture capital company is
11 entitled to the credit.

12 3. The qualified venture capital company is
13 allowed the credit as computed each year in subsection
14 2 for up to ten consecutive years beginning with the
15 first year for which the credit is taken.

16 If the amount of the credit exceeds the qualified
17 venture capital company's tax liability for the tax
18 year, the excess may be credited to the tax liability
19 for the following five tax years or until depleted,
20 whichever is the earlier, and is in addition to any
21 other credit allowed under this section.

22 4. Notwithstanding the amount of credit computed
23 in subsection 2, the total amount of credits for all
24 qualified venture capital companies that shall be
25 allowed under subsection 1 for any fiscal year of the
26 qualified venture capital company shall not exceed one
27 million two hundred fifty thousand dollars and for all
28 fiscal years of the qualified venture capital company
29 shall not exceed twelve million five hundred thousand
30 dollars. In determining if the credit allowed has
31 exceeded the fiscal year limit, credits carried over
32 from a previous tax year are not counted.

33 5. The credit provided for in subsection 2, to the
34 extent not previously utilized, shall be freely
35 transferable to and by subsequent transferees for a
36 period of ten years from the date the credit is first
37 available to the qualified venture capital company.

38 Sec. 31. NEW SECTION. 15E.177 COORDINATION OF
39 RESOURCES.

40 If a qualified venture capital company is organized
41 by the Iowa business investment corporation on or
42 before December 31, 1997, within ninety days following
43 its organization, the qualified venture capital
44 company shall develop and submit a written proposal to
45 the shareholders of each business development finance
46 corporation organized pursuant to division XIII of
47 this chapter, calling for the investment of all the
48 assets of each business development finance
49 corporation in securities of the qualified venture
50 capital company. A notice of a special meeting of the

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1 shareholders of the business development finance
2 corporation and the written proposal made to the
3 business development finance corporation by the
4 qualified venture capital company shall be delivered
5 to the shareholders of each business development
6 finance corporation entitled to vote at the special
7 shareholders meeting not less than ten nor more than
8 sixty days before the meeting date given by the
9 qualified venture capital company. Action on the
10 written proposal by the board of directors of the
11 business development finance corporation or any other
12 person shall not be required to call the special
13 meeting or authorize voting on the written proposal by
14 the shareholders of the business development finance
15 corporation. If at the special meeting of
16 shareholders of the business development finance
17 corporation or any recesses thereof, a majority of the
18 shareholders present or represented at the special
19 meeting approve the investment proposed by the
20 qualified venture capital company, the business
21 development finance corporation shall immediately make
22 such an investment of all of its assets. The
23 investment by a business development finance
24 corporation of all of its assets in the qualified
25 venture capital corporation shall not be considered a
26 sale of assets other than in the usual and regular
27 course of business and division XIII of the Iowa
28 business development finance Act shall not apply to
29 the transaction. The qualified venture capital
30 company may make additional proposals as often as it
31 desires to the shareholders of each business
32 development finance corporation that did not approve
33 the initial investment proposal. Except for the
34 requirement that a written proposal be presented to
35 the shareholders within ninety days of the
36 organization of the qualified venture capital company,
37 the provisions of this section shall apply to all
38 additional proposals.

39 Sec. 32. Section 422.33, Code Supplement 1995, is
40 amended by adding the following new subsection:

41 NEW SUBSECTION. 9. There is allowed as a credit
42 against the tax determined in subsection 1 for a tax
43 year an amount equal to the qualified venture capital
44 credit as provided in section 15E.176.

45 Notwithstanding any other provision, the credit
46 allowed for in this subsection shall be applied prior
47 to all other credits allowed the taxpayer. The
48 taxpayer shall not receive for the same investment a
49 credit under subsection 8 and this subsection.

50 Sec. 33. Section 422.60, Code Supplement 1995, is

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1 amended by adding the following new subsection:

2 NEW SUBSECTION. 4. There is allowed as a credit
3 against the tax determined in this division for a tax
4 year an amount equal to the qualified venture capital
5 credit as provided in section 15E.176.

6 Notwithstanding any other provision, the credit
7 allowed for in this subsection shall be applied prior
8 to all other credits allowed the taxpayer. The
9 allocation of revenues to a city or county under
10 section 422.65 shall be determined as if the credit
11 under this subsection had not been taken.

12 Sec. 34. Section 432.1, Code 1995, is amended by
13 adding the following new subsection:

14 NEW SUBSECTION. 5. There is allowed as a credit
15 against the tax determined in subsection 1 or 2 for a
16 tax year an amount equal to the qualified venture
17 capital credit as provided in section 15E.176.

18 Notwithstanding any other provision, the credit
19 allowed for in this subsection shall be applied prior
20 to all other credits allowed the taxpayer.

21 Sec. 35. 1992 Iowa Acts, chapter 1244, section 1,
22 subsection 2, paragraph e, unnumbered paragraph 1, as
23 amended by 1993 Iowa Acts, chapter 180, section 46, as
24 amended by 1994 Iowa Acts, chapter 1201, section 29,
25 is amended to read as follows:

26 For transfer to the treasurer of state for the
27 purpose of facilitating the organization and private
28 capitalization of the small business investment
29 company or other entity under sections 15E.169 through
30 15E.171. If the small business investment company or
31 another entity for which the funds are to be used is
32 ~~not organized within-thirty-six-months-of-the~~
33 ~~effective-date-of-this-Act,~~ unused funds shall revert
34 to the general fund of the state, however, if such an
35 entity is organized, the unused funds shall be
36 transferred irrevocably to the qualified venture
37 capital company or other entity for which the funds
38 are to be used:

39 \$ 200,000

40 Sec. 36. APPLICABILITY. This division of this Act
41 applies for tax years of entities subject to the state
42 corporate income tax or franchise tax which begin on
43 or after January 1, 1997. This division of this Act
44 applies for calendar years beginning on or after
45 January 1, 1997, for entities subject to the gross
46 premiums tax under chapter 432.

47 DIVISION VI

48 FAMILY FARM FEEDING OPERATIONS

49 Sec. 37. NEW SECTION. 175A.1 SHORT TITLE.

50 This chapter shall be known and may be cited as the

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1 "Iowa Family Farm Animal Feeding Operations
2 Preservation Act".

3 Sec. 38. NEW SECTION. 175A.2 PURPOSE.

4 The purpose of this chapter is to address a grave
5 threat to traditional farmers who produce animals in
6 this state and who face capitalization barriers and
7 the consolidation of animal agriculture, which results
8 in fewer individuals engaged in farming. These
9 conditions result in a loss in population,
10 unemployment and a movement of persons from rural
11 communities to urban areas accompanied by added costs
12 to communities for the creation of new public
13 facilities and services. It is therefore necessary to
14 assist small and medium sized family farm animal
15 feeding operations in order to expand such operations
16 and preserve a way of life which has traditionally
17 supported Iowa's economy and communities.

18 Sec. 39. NEW SECTION. 175A.3 DEFINITIONS.

19 1. "Animal feeding operation" means the same as
20 defined in section 455B.161.

21 2. "Animal feeding operation structure" means the
22 same as defined in section 455B.161.

23 3. "Animal weight capacity" means the same as
24 defined in section 455B.161.

25 4. "Authority" means the agricultural development
26 authority established pursuant to section 175.3.

27 5. "Family farm animal feeding operation" or
28 "operation" means an animal feeding operation located
29 on the land where the owner of the operation also
30 engages in farming activities other than animal
31 feeding operation activities, if all of the following
32 criteria are satisfied:

33 a. The total animal weight capacity of all animals
34 other than bovine animals owned by the person is two
35 hundred thousand pounds or less, and the total animal
36 weight capacity of bovine animals owned by the person
37 is four hundred thousand pounds or less.

38 b. A person holding an interest in the animal
39 feeding operation owns all animals confined and fed in
40 the animal feeding operation.

41 c. The person who owns the animal feeding
42 operation raises and harvests crops in the same or an
43 adjoining county where the animal feeding operation is
44 located.

45 d. The person who owns the animal feeding
46 operation is one of the following:

47 (1) A natural person.

48 (2) A general partnership composed exclusively of
49 natural persons.

50 e. Each person who holds an interest in the animal

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- 1 feeding operation resides in this state.
2 f. The animal feeding operation is located
3 entirely within the state.
4 6. "Farming" means the same as defined in section
5 175.2.
6 7. "Lending institution" means a bank, trust
7 company, mortgage company, national banking
8 association, savings and loan association, life
9 insurance company, any state or federal governmental
10 agency or instrumentality, including without
11 limitation the federal land bank or any of its local
12 associations, or any other financial institution or
13 entity authorized to make farm operating loans in this
14 state.
15 8. "Low or moderate net worth" means:
16 a. For an individual, an aggregate net worth of
17 the individual and the individual's spouse and minor
18 children of less than two hundred thousand dollars.
19 b. For any general partnership, an aggregate net
20 worth of all partners, including each partner's net
21 capital in the partnership, and of each partner's
22 spouse and minor children of less than three hundred
23 thousand dollars. However, the aggregate net worth of
24 each partner and that partner's spouse and minor
25 children shall not exceed two hundred thousand
26 dollars.
27 9. "Net worth" means a person's total assets minus
28 total liabilities as determined in accordance with
29 generally accepted accounting principles with
30 appropriate exceptions and exemptions reasonably
31 related to an equitable determination of a person's
32 net worth. Assets shall be valued at fair market
33 value.
34 10. "Note" means a bond anticipation note or other
35 obligation or evidence of indebtedness issued by the
36 authority pursuant to this chapter.
37 11. "Secured loan" means a financial obligation
38 secured by a chattel mortgage, security agreement, or
39 other instrument creating a lien on an interest in
40 depreciable agricultural property.

41 Sec. 40. NEW SECTION. 175A.4 ASSISTANCE
42 PROGRAMS.

- 43 1. The authority shall administer programs under
44 this section to assist family farm animal feeding
45 operations. The department of revenue and finance
46 shall assist the authority in administering this
47 section.
48 2. In order to assist a family farm animal feeding
49 operation in financing the operation, including by
50 assisting in whole or in part the acquisition of

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1 animals, or the purchase of agricultural land, the
2 purchase of agricultural improvements or depreciable
3 agricultural property, the construction of buildings,
4 facilities, or animal feeding operation structures,
5 related to the operation, the authority shall do all
6 of the following:

7 a. Cooperate with any other state agency or the
8 federal government, including supplementing assistance
9 provided by another state agency and the federal
10 government.

11 b. Administer other programs provided under
12 chapter 175, including supplementing assistance
13 provided by other programs.

14 c. Provide certification necessary to allow owners
15 of operations to claim an income tax credit as
16 provided in section 175A.5, and a property tax
17 exemption pursuant to section 427.1.

18 d. Administer the following programs:

19 (1) A loan guarantee program to provide for
20 guaranteeing of all or part of a loan made to the
21 operation.

22 (2) An interest buy-down program, in which the
23 authority contracts with a participating lending
24 institution to reduce the interest rate charged on a
25 loan to the operation. The authority shall determine
26 the amount that the rate is reduced by considering the
27 lending institution's customary loan rate for the type
28 of loan sought as certified to the authority by the
29 lending institution. As part of the contract, in
30 order to reimburse the lending institution for the
31 reduction of the interest rate on the loan, the
32 authority may agree to grant the lending institution
33 any amount foregone by reducing the interest rate on
34 that portion of the loan which is three hundred
35 thousand dollars or less. However, the amount
36 reimbursed shall not be more than fifty percent of the
37 amount of interest foregone by the lending institution
38 on the loan.

39 3. The amount of assistance awarded to a family
40 farm animal feeding operation shall be based on the
41 extent to which the following apply:

42 a. The operation has a low or moderate net worth.

43 b. The owner of the family farm animal feeding
44 operation utilizes a computer or recordkeeping system
45 designed to monitor herd performance, as approved by
46 Iowa state university.

47 c. The person managing the operation is actively
48 engaged in improving the management of the operation,
49 which may include participating in the livestock
50 producers assistance program provided pursuant to

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1 section 266.39D, or employing a person qualified by
2 the American registry of professional animal science,
3 who is actively engaged in the profession of
4 consulting with livestock producers for the purpose of
5 increasing production or enhancing performance of
6 livestock.

7 4. In order to participate in a program
8 administered under this section, all of the following
9 must apply:

10 a. The family farm animal feeding operation or any
11 person holding an interest in the operation is not
12 classified as a habitual violator as provided in
13 section 455B.191.

14 b. The assistance provided by the authority under
15 this section is not used to construct, repair, or
16 expand an anaerobic lagoon or earthen manure storage
17 basin as defined in section 455B.161.

18 5. a. The authority shall adopt rules to
19 administer this section, including the enforcement of
20 terms of a contract to which the authority is a party.
21 The authority may require a lending institution or a
22 family farm animal feeding operation to submit
23 evidence satisfactory to the authority that the
24 lending institution or operation has complied with the
25 authority's requirements.

26 b. The authority may inspect any records of a
27 lending institution or a family farm animal feeding
28 operation which are pertinent to the administration of
29 a program. In order to assure compliance with this
30 section and rules adopted pursuant to this section,
31 the authority may establish by rule appropriate
32 enforcement provisions, including but not limited to,
33 the payment of civil penalties by a lending
34 institution or operation. The authority may also
35 enforce the provisions of this section or terms of the
36 contract by bringing an action in any court of
37 competent jurisdiction to recover damages.

38 6. A lending institution and the borrower
39 participating in a program under this section shall
40 each pay to the authority one-half of an origination
41 fee which shall not exceed one percent of the loan.
42 In addition, the lending institution shall pay a fee
43 equal to twenty-five basis points on the loan to the
44 authority on an annual basis.

45 7. The fact that the family farm animal feeding
46 operation or the person who owns the operation has
47 received assistance, monetary or otherwise, from the
48 authority shall not prevent the operation from being
49 eligible for assistance under programs available under
50 this section.

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1 Sec. 41. NEW SECTION. 175A.5 INCOME TAX CREDIT.
 2 1. A family farm animal feeding operation which
 3 receives at least ten thousand dollars in assistance
 4 under section 175A.4 as certified by the authority
 5 under section 175A.4 shall be entitled to receive a
 6 tax credit equal to ten percent of all new investments
 7 made in the operation not later than the tax year
 8 following the tax year in which the operation receives
 9 assistance under section 175A.4.

10 2. For purposes of this section, "new investment"
 11 means the capitalized cost of all real and personal
 12 property related to the family farm animal feeding
 13 operation, including animals; buildings and animal
 14 feeding operation structures qualifying under this
 15 section; equipment; and other improvements to the
 16 operation, purchased or otherwise acquired or
 17 relocated to the operation. "New investment" does not
 18 include intangible property, or furniture and
 19 furnishings. For the purposes of this section,
 20 capitalized cost of property shall be determined in
 21 accordance with accounting methods used by the
 22 taxpayer in determining the taxpayer's income for
 23 state tax purposes.

24 3. Any credit in excess of the tax liability for
 25 the tax year may be applied to the tax liability for
 26 the following ten years or until depleted, whichever
 27 occurs first.

28 4. The department of revenue and finance shall
 29 adopt any rules necessary to administer this section.

30 Sec. 42. NEW SECTION. 175A.6 FAMILY FARM ANIMAL
 31 FEEDING OPERATION FUND.

32 1. A family farm animal feeding operation fund is
 33 created within the state treasury under the control of
 34 the authority. The fund shall consist of any moneys
 35 appropriated by the general assembly, fees paid to the
 36 authority, and any other moneys available to and
 37 obtained or accepted by the authority from the federal
 38 government or private sources for placement in the
 39 fund. Moneys shall be deposited in the fund as
 40 provided in section 175A.7. Not more than one hundred
 41 fifty thousand dollars shall be available annually
 42 from the fund for administration of section 175A.4.
 43 The assets of the fund shall be used by the authority
 44 only for carrying out the purposes of section 175A.1
 45 and section 427.1, subsection 28.

46 2. In administering the fund the authority may do
 47 all of the following:

48 a. Contract, sue and be sued, and adopt
 49 administrative rules necessary to administer this section.
 50 However, the authority shall not in any way, however, the

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1 manner directly or indirectly pledge the credit of the
2 state.

3 b. Authorize payment from the fund for costs,
4 commissions, attorney fees, and other reasonable
5 expenses, including expenses related to carrying out
6 duties necessary for administering programs provided
7 for under section 175A.4, including for guaranteeing
8 loans, and for the recovery of loan moneys guaranteed
9 or the management of property acquired in connection
10 with such loans.

11 3. Payments of interest, recaptures of awards, or
12 repayments of moneys provided in assistance under
13 section 175A.4 shall be deposited into the fund.
14 Section 8.33 does not apply to any moneys in the fund
15 until June 30, 2001. Notwithstanding section 12C.7,
16 interest or earnings on investments or time deposits
17 of the moneys in the fund shall be credited to the
18 fund.

19 4. The fund is subject to an annual audit as
20 provided by the authority. Moneys in the fund, which
21 may be subject to warrants written by the director of
22 revenue and finance, shall be drawn upon the written
23 requisition of the authority's executive director.

24 Sec. 43. NEW SECTION. 175A.7 STANDING
25 APPROPRIATION.

26 For each fiscal year of the fiscal period beginning
27 July 1, 1996, and ending June 30, 2002, there is
28 appropriated twelve million dollars from the general
29 fund of the state to the family farm animal feeding
30 operation fund created in section 175A.6.

31 Sec. 44. Section 427.1, Code Supplement 1995, is
32 amended by adding the following new subsection:

33 NEW SUBSECTION. 28. The property of a family farm
34 animal feeding operation as defined in section 175A.3,
35 which receives at least ten thousand dollars in
36 assistance awarded and certified by the agricultural
37 development authority under section 175A.4 shall be
38 exempt from taxation for a period of five years, to
39 the extent provided in this subsection.

40 a. The exemption shall apply as follows:

41 (1) It begins on January 1 of the year following
42 the year in which the family farm animal feeding
43 operation receives assistance under section 175A.4.

44 (2) It is limited to the market value, as defined
45 in section 441.21, of the property of the family farm
46 animal feeding operation. If the property of the
47 family farm animal feeding operation is assessed with
48 other property as a unit, the exemption shall be
49 limited to the net market value of the property of the
50 family farm animal feeding operation determined as of

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1 the assessment date.
2 b. In order to receive the exemption, the owner of
3 the operation must file for the exemption with the
4 assessing authority not later than the first of
5 February of the first year for which the exemption
6 applies, on forms provided by the agricultural
7 development authority. The application shall provide
8 a description of the family farm animal feeding
9 operation subject to the exemption. The application
10 shall be accompanied by a certificate of assistance
11 provided by the agricultural development authority.
12 c. The assessing authority shall retain a
13 permanent file of current exemptions filed in the
14 assessing authority's office. Not later than July 6
15 of each year, the assessing authority shall remit a
16 statement certifying the total amount of exemptions
17 allowed under this subsection. After receiving the
18 certification, the agricultural development authority
19 shall draw warrants on the family farm animal feeding
20 operation fund created in section 175A.6 which shall
21 be payable to the county treasurer in the amount
22 certified by the assessing authority, and shall mail
23 the warrants to the county treasurers on August 15 of
24 each year. However, if the family farm animal feeding
25 operation fund does not have sufficient moneys
26 available to pay in full the total of the amounts
27 certified to the agricultural development authority,
28 the authority shall prorate unobligated and
29 unencumbered moneys in the fund to the county
30 treasurers.
31 d. If the county treasurer has received a
32 percentage amount of the amount certified to the
33 agricultural development authority, the county
34 treasurer shall for the following fiscal year grant
35 each exemption from the previous fiscal year an
36 exemption equal to the percentage amount which the
37 county treasurer was reimbursed for that exemption
38 unless the reimbursement for that exemption is fully
39 funded by February 1 preceding the next fiscal year.

40 Sec. 45. FUTURE REPEAL.

41 1. Sections 175A.5 and 175A.7 are repealed.

42 2. Section 427.1, subsection 28, is amended by
43 striking the subsection.

44 3. This section takes effect on July 1, 2002.

45 4. Notwithstanding this section, an income tax
46 credit granted pursuant to section 175A.5, or a
47 property tax exemption provided under section 427.1,
48 subsection 28, shall continue in effect and shall be
49 administered and enforced until its expiration as
50 provided in this division of this Act.

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1 DIVISION VII

2 FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

3 Sec. 46. Section 425A.1, Code 1995, is amended to
4 read as follows:

5 425A.1 FAMILY FARM TAX CREDIT FUND.

6 The family farm tax credit fund is created in the
7 office of the treasurer of state. There shall be
8 ~~transferred appropriated~~ annually to the fund the
9 ~~first-ten-million-dollars-of-the-amount-annually~~
10 ~~appropriated-to-the-agricultural-land-credit-fund,~~
11 ~~provided-in-section-426.1~~ sum of thirty-five million
12 dollars. Any balance in the fund on June 30 shall
13 revert to the general fund.

14 Sec. 47. Section 425A.2, subsection 4, Code 1995,
15 is amended to read as follows:

16 4. "Designated person" means one of the following:

17 a. If the owner is an individual, the designated
18 person includes the owner of the tract ~~or a person~~
19 ~~related-to-the-owner-as,~~ the owner's spouse, parent,
20 grandparent, ~~the owner's child, grandchild,~~ or
21 stepchild, and their spouses, or the owner's relative
22 within the third degree of consanguinity, and the
23 relative's spouse.

24 b. If the owner is a partnership, a partner, or
25 the partner's spouse.

26 c. If the owner is a family farm corporation, a
27 family member who is a shareholder of the family farm
28 corporation or the shareholder's spouse.

29 d. If the owner is an authorized farm corporation,
30 a shareholder who owns at least fifty-one percent of
31 the stock of the authorized farm corporation or the
32 shareholder's spouse.

33 e. If the owner is an individual who leases the
34 tract to a family farm corporation, a shareholder of
35 the corporation if the combined stock of the family
36 farm corporation owned by the owner of the tract and
37 persons related to the owner as enumerated in
38 paragraph "a" is equal to at least fifty-one percent
39 of the stock of the family farm corporation.

40 f. If the owner is an individual who leases the
41 tract to a partnership, a partner if the combined
42 partnership interest owned by the owner of the tract
43 and persons related to the owner as enumerated in
44 paragraph "a" is equal to at least fifty-one percent
45 of the ownership interest of the partnership.

46 Sec. 48. Section 426.1, Code 1995, is amended to
47 read as follows:

48 426.1 AGRICULTURAL LAND CREDIT FUND.

49 There is created as a permanent fund in the office
50 of the treasurer of state a fund to be known as the

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1 agricultural land credit fund, and for the purpose of
2 establishing and maintaining this fund for each fiscal
3 year there is appropriated ~~thereto~~ to the fund from
4 funds in the general fund not otherwise appropriated
5 the sum of ~~thirty-nine~~ twenty-nine million one hundred
6 thousand dollars ~~of which the first ten million~~
7 ~~dollars shall be transferred to and deposited into the~~
8 ~~family farm tax credit fund created in section 425A.1.~~
9 Any balance in said fund on June 30 shall revert to
10 the general fund.

11 Sec. 49. This division of this Act, being deemed
12 of immediate importance, takes effect upon enactment
13 and applies to family farm tax credits and
14 agricultural land credits allowed for property taxes
15 due and payable in fiscal years beginning on or after
16 July 1, 1996.

17 DIVISION VIII
18 SCHOOL FUNDING

19 Sec. 50. Section 257.1, subsection 2, unnumbered
20 paragraph 2, Code Supplement 1995, is amended to read
21 as follows:

22 For the budget year commencing July 1, ~~1991~~ 1996,
23 and for each succeeding budget year the regular
24 program foundation base per pupil is eighty-three
25 percent of the regular program state cost per pupil,
26 ~~except that the regular program foundation base per~~
27 ~~pupil for the portion of weighted enrollment that is~~
28 ~~additional enrollment because of special education is~~
29 ~~seventy-nine percent of the regular program state cost~~
30 ~~per pupil.~~ For the budget year commencing July 1,
31 ~~1991~~ 1996, and for each succeeding budget year the
32 special education support services foundation base is
33 ~~seventy-nine~~ eighty-three percent of the special
34 education support services state cost per pupil. The
35 combined foundation base is the sum of the regular
36 program foundation base and the special education
37 support services foundation base.

38 Sec. 51. EFFECTIVE DATE. This division of this
39 Act, being deemed of immediate importance, takes
40 effect upon enactment for calculating state foundation
41 aid for school budget years commencing on or after
42 July 1, 1996.

43 DIVISION IX
44 BOND ELECTIONS

45 Sec. 52. Section 75.1, Code 1995, is amended to read as
46 follows:

47 75.1 BONDS -- ELECTION -- VOTE REQUIRED.

48 1. When a proposition to authorize an issuance of bonds by
49 a county, township, school corporation, city, or by any local
50 board or commission, is submitted to the electors, such the

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1 proposition shall-not-be-deemed-carried-or-adopted, anything
2 in-the-statutes-to-the-contrary-notwithstanding, unless is
3 adopted if the vote in favor of such authorization the
4 proposition is equal to at least sixty percent of the total
5 vote cast for and against said the proposition at said the
6 election.

7 2. Notwithstanding subsection 1, if the annual levy of
8 property tax to pay principal and interest on bonds issued by
9 a county, school corporation, or city is to be offset with
10 revenue from a local income surtax pursuant to section 76.21,
11 the proposition shall so state and the proposition is adopted
12 if the vote in favor of the proposition is equal to a majority
13 of the total vote cast for and against the proposition at the
14 election. However, a bond issuance proposition proposing
15 imposition of an income surtax shall not be presented to the
16 electors if in the first year the income surtax is imposed the
17 total of all income surtaxes authorized by law and imposed in
18 that year on any taxpayer in the political subdivision
19 imposing the surtax would exceed twenty percent. Upon request
20 of the governing authority, the department of management shall
21 certify the cumulative rate of income surtax being imposed in
22 the political subdivision.

23 3. All ballots cast and not counted as a vote for or
24 against the proposition shall not be used in computing the
25 total vote cast for and against said the proposition.

26 4. When a proposition to authorize an issuance of bonds
27 has been submitted to the electors under this section and the
28 proposal fails to gain approval by the required percentage of
29 votes, such proposal, or any proposal which incorporates any
30 portion of the defeated proposal, shall not be submitted to
31 the electors for a period of six twelve months from the date
32 of such regular or special election.

33 Sec. 53. Section 76.1, Code 1995, is amended to read as
34 follows:

35 76.1 MANDATORY RETIREMENT.

36 Hereafter-issues Issues of bonds of-every-kind-and
37 character by counties, cities, and school corporations shall
38 be consecutively numbered. The annual levy of property tax,
39 or combination of property tax levy and income surtax imposed
40 as provided in section 76.19, shall be sufficient to pay the
41 interest and approximately such that portion of the principal
42 of the bonds as will retire them in a period not exceeding
43 twenty twenty-two years from date of issue. Each issue of
44 bonds shall be scheduled to mature serially in the same order
45 as numbered.

46 Sec. 54. Section 76.2, Code 1995, is amended to read as
47 follows:

48 76.2 MANDATORY LEVY -- OBLIGATIONS IN ANTICIPATION OF
49 LEVY.

50 The governing authority of these political subdivisions

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1 before issuing bonds shall, by resolution, provide for the
2 assessment of an annual levy upon all the taxable property in
3 the political subdivision, or the assessment of an annual
4 property tax levy and imposition of an income surtax under
5 section 76.19, sufficient to pay the interest-and principal
6 and interest of the bonds within a period named not exceeding
7 twenty-years that provided in section 76.1. A certified copy
8 of this resolution shall be filed with the county auditor or
9 the auditors of the counties in which the political
10 subdivision is located; and the filing shall make it a duty of
11 the auditors to enter annually this levy for collection from
12 the taxable property within the boundaries of the political
13 subdivision until funds are realized to pay the bonds in full.
14 The property tax levy shall continue to be made against
15 property that is severed from the political subdivision and
16 the income surtax shall continue to be imposed upon the
17 residents of any area severed from the political subdivision
18 after the filing of the resolution until funds are realized to
19 pay the bonds in full.

20 If the a resolution which does not include imposition of an
21 income surtax is filed prior to April 1, or May 1, if the
22 political subdivision is a school district, the annual levy
23 shall begin with the tax levy for collection commencing July 1
24 of that year. If the resolution is filed after April 1, or
25 May 1, in the case of a school district, or if the resolution
26 includes imposition of an income surtax, the annual property
27 tax levy shall begin with the tax levy for collection in the
28 next succeeding fiscal year. If the resolution includes the
29 imposition of a local income surtax and it is filed with the
30 department of revenue and finance prior to August 1, the
31 imposition of the surtax is retroactive to January 1 of that
32 calendar year. If the resolution is filed with the department
33 of revenue and finance on or after August 1, the imposition of
34 the income surtax begins on January 1 of the next calendar
35 year. However, the governing authority of a political
36 subdivision may adjust a levy of taxes made under this section
37 for the purpose of adjusting the annual levies and collections
38 and income surtax rate for property severed from the political
39 subdivision, subject to the approval of the director of the
40 department of management.

41 If funds, including reserves and amounts available for
42 temporary transfer, are ~~found-to-be~~ insufficient to pay in
43 full any installment of principal or interest, a public issuer
44 of bonds may anticipate the next levy of property taxes
45 pursuant to this section or the imposition of an income surtax
46 under section 76.19 in the manner provided in chapter 74,
47 whether the taxes so anticipated are to be collected in the
48 same or a future fiscal year.

49 To further secure the payment of the bonds, the governing
50 authority shall, by resolution, provide for the assessment of

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1 an annual levy of a standby tax upon all taxable property
2 within the political subdivision. A copy of the resolution
3 shall be sent to the county auditor of each county in which
4 the political subdivision is located. The revenues from the
5 standby tax shall be deposited in a special fund and shall be
6 expended only for the payment of principal and interest on the
7 bonds issued as provided in this section, when the revenue
8 from an income surtax as provided in section 76.19 is
9 insufficient. Reserves shall not be built up in this fund in
10 anticipation of a projected default. The governing authority
11 shall adjust the annual standby property tax levy for each
12 year to reflect the amount of revenues in the special fund and
13 the amount of principal and interest which is due in that
14 year.

15 Sec. 55. Section 76.4, Code 1995, is amended to read as
16 follows:

17 76.4 PERMISSIVE APPLICATION OF FUNDS.

18 Whenever if the governing authority of such a political
19 subdivision ~~shall have~~ has on hand funds derived from any
20 other a source other than taxation which may be appropriated
21 to the payment either of interest-or principal or interest, or
22 both principal and interest of such bonds, such the funds may
23 be so appropriated and used and the property tax levy and
24 income surtax rate, if imposed, for the payment of the bonds
25 correspondingly reduced.

26 Sec. 56. Section 76.7, Code 1995, is amended to read as
27 follows:

28 76.7 PARTICULAR BONDS AFFECTED -- PAYMENT.

29 Counties, cities, and school corporations may at any time
30 ~~or-times~~ extend or renew any legal indebtedness or any part
31 thereof of the indebtedness they may have represented by bonds
32 or certificates where such the indebtedness is payable from a
33 limited annual property tax or from a voted annual property
34 tax, or from an income surtax imposed under section 76.19, and
35 may by resolution fund or refund the same legal indebtedness
36 and issue bonds therefor running not more than twenty years to
37 be known as funding or refunding bonds, and make provision for
38 the payment of the principal and interest thereof from the
39 proceeds of an annual property tax, or annual property tax and
40 income surtax, for the period covered by such the bonds
41 similar to the tax authorized by law or by the electors for
42 the payment of the indebtedness so extended or renewed.

43 Sec. 57. NEW SECTION. 76.19 INCOME SURTAX.

44 1. An income surtax may be imposed by a political
45 subdivision as provided in this section, but only if
46 authorized by the electors as provided in section 75.1.

47 2. The income surtax shall be imposed upon state income
48 taxes computed under section 422.5, less credits allowed in
49 sections 422.11A, 422.11B, 422.11C, 422.12, and 422.12B, and
50 shall be imposed upon the state income tax for each calendar

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1 year, or for a taxpayer's fiscal year ending during the second half of that calendar year or the first half of the succeeding calendar year, and shall be imposed on all taxpayers residing in the political subdivision on the last day of the applicable tax year, and on taxpayers residing in areas severed from the political subdivision as provided in section 76.2.

3. The income surtax shall be imposed to collect an amount that is equivalent to sixty percent of the sum of the principal and interest of the bonds over the life of the bonds. The rate of the income surtax may be adjusted in any year for the sole purpose of ensuring that an amount equivalent to sixty percent of the principal and interest over the life of the bonds is collected.

4. At the time of the annual levy under section 76.2, the governing authority of the political subdivision shall also provide in the resolution for the imposition of the income surtax and shall certify to the department of management such sum expressed in dollars. The department shall determine the rate of income surtax to be imposed based upon the most recent available figures from state income taxes paid by taxpayers residing in the political subdivision. The department shall continue to make such calculations and certify the income surtax rate to the county auditor or the auditors of the counties in which the political subdivision is located with adjustments as provided in this section until the principal and interest on the bonds are paid in full. On or before November 1 of each year in which the income surtax is collected the director of revenue and finance shall deposit with the treasurer of the political subdivision the entire amount of income surtax collected from taxpayers residing in the political subdivision.

5. The costs of administration shall be determined by the department of revenue and finance, and shall be based on a share of the total cost of administering the department, in the same proportion as the amount of income surtax collected is to the amount of state income taxes collected.

6. The director of revenue and finance shall administer the income surtax imposed under this chapter and sections 422.4, 422.20 to 422.31, 422.68, and 422.72 to 422.75 shall apply with respect to administration of the income surtax.

Sec. 58. NEW SECTION. 76.20 INCOME TAX RETURNS.

An income surtax imposed under section 76.19 shall be made a part of the Iowa individual income tax return subject to the conditions and restrictions set forth in section 422.21. The director of revenue and finance shall provide on income tax returns a requirement that each person required to file a return numerically identify the city of residence of the taxpayer and the merged area in which the taxpayer resides.

Sec. 59. NEW SECTION. 76.21 PROPERTY TAX CREDIT -- AGRICULTURAL AND RESIDENTIAL PROPERTY.

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1 Local income surtax revenues collected under section 76.19
2 shall be used to offset the annual levy of property tax on
3 property assessed as agricultural or residential property.
4 The surtax shall be distributed in the following manner:
5 Upon receipt of the revenues collected from the income
6 surtax, the county treasurer shall notify the county auditor
7 of the amount of income surtax revenues received. The auditor
8 shall determine the amount to be credited to each parcel of
9 real property located in the political subdivision and
10 assessed as agricultural or residential, and shall enter such
11 amount upon the tax lists as a credit against the tax levied
12 on each parcel of real property assessed as agricultural or
13 residential. The county treasurer shall show on each tax
14 receipt the amount of tax credit to be applied against
15 property taxes payable in the fiscal year following the year
16 in which the surtax was collected for each parcel of real
17 property assessed as agricultural or residential. In case of
18 change of ownership, the credit shall remain with the parcel.
19 The amount of the credit funded by revenues from the income
20 surtax imposed under section 76.19 shall be an amount equal to
21 a pro rata share based upon the ratio of the taxable value of
22 each parcel to receive the credit to the total taxable value
23 of the property to receive the credit.

24 Sec. 60. NEW SECTION. 76.22 DESIGNATION OF TAX.

25 An income surtax imposed under section 76.19 by a school
26 district shall be designated as a school debt service income
27 surtax, an income surtax imposed by a merged area shall be
28 designated as a merged area debt service income surtax, an
29 income surtax imposed under section 76.19 by a city shall be
30 designated a city debt service income surtax, and an income
31 surtax imposed under section 76.19 by a county shall be
32 designated a county debt service income surtax.

33 Sec. 61. Section 260C.21, Code 1995, is amended to read as
34 follows:

35 260C.21 ELECTION TO INCUR INDEBTEDNESS.

36 1. No indebtedness shall be incurred under section 260C.19
37 until authorized by an election. A proposition to incur
38 indebtedness and issue bonds for community college purposes
39 shall be deemed carried adopted in a merged area if approved
40 by a sixty percent majority of all voters voting on the
41 proposition in the area. However, if the board elects to
42 offset the annual property tax levy with revenues from a local
43 income surtax pursuant to section 76.21, the ballot
44 proposition to authorize the issuance of the bonds shall be
45 submitted to the electorate pursuant to section 75.1,
46 subsection 2.

47 2. Notwithstanding subsection 1, if the costs of utilities
48 are paid by a community college with funds derived from the
49 levy authorized under section 260C.22, the community college
50 may use the general fund moneys that would have been used to

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1 pay the costs of utilities for capital expenditures, may
2 invest the funds, or may incur indebtedness without an
3 election, provided that the payments on the indebtedness
4 incurred, and any interest on the indebtedness, can be made
5 using general funds of the community college and the total
6 payments on the principal and interest on the indebtedness do
7 not exceed the amount of the costs of the utilities.

8 Sec. 62. Section 296.1, Code 1995, is amended to read as
9 follows:

10 296.1 INDEBTEDNESS AUTHORIZED.

11 Subject to the approval of the voters thereof, school
12 districts are hereby authorized to contract indebtedness and
13 to issue general obligation bonds to provide funds to defray
14 the cost of purchasing, building, furnishing, reconstructing,
15 repairing, improving or remodeling a schoolhouse or
16 schoolhouses and additions thereto, gymnasium, stadium, field
17 house, school bus garage, teachers' or superintendent's home
18 or homes, and procuring a site or sites therefor, or
19 purchasing land to add to a site already owned, or procuring
20 and improving a site for an athletic field, or improving a
21 site already owned for an athletic field, and for any one or
22 more of such purposes. Taxes for the payment of said the
23 bonds shall be levied or imposed in accordance with chapter
24 76, and said the bonds shall mature within a period not
25 exceeding twenty years from date of issue the period provided
26 in section 76.1, shall bear interest at a rate or rates not
27 exceeding that permitted by chapter 74A and shall be of such
28 form as the board of directors of such the school district
29 shall by resolution provide, but the aggregate indebtedness of
30 any school district shall not exceed five percent of the
31 actual value of the taxable property within said the school
32 district, as ascertained by the last preceding state and
33 county tax lists.

34 Sec. 63. Section 296.6, Code 1995, is amended to read as
35 follows:

36 296.6 BONDS.

37 If the vote in favor of the issuance of such bonds is equal
38 to at least sixty percent of the total vote cast for and
39 against said the proposition at said the election, the board
40 of directors shall issue the same bonds and make provision for
41 payment thereof of the bonds. However, if the board of
42 directors of a school district elects to offset the annual
43 property tax levy with revenues from an income surtax pursuant
44 to section 76.21, the ballot proposition to authorize the
45 issuance of the bonds shall be submitted to the electorate
46 pursuant to section 75.1, subsection 2.

47 Sec. 64. Section 298.14, unnumbered paragraph 1, Code
48 1995, is amended to read as follows:

49 For each fiscal year, the cumulative total of the percents
50 of surtax approved by the board of directors of a school

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1 district and collected by the department of revenue and
2 finance under sections 257.21, 257.29, 279.54, and 298.2, and
3 the enrichment surtax under section 442.15, Code 1989, and an
4 income surtax collected by a political subdivision under
5 chapter 422D, shall not exceed twenty percent. In addition,
6 if an income surtax is imposed under section 76.19, the
7 cumulative total of percents of surtax imposed on any taxpayer
8 in a school district under sections 76.19, 257.21, 257.29,
9 279.54, 298.2, 442.15, Code 1989, and chapter 422D shall not
10 exceed twenty percent in the first year in which one or more
11 of these income surtaxes is imposed.

12 Sec. 65. Section 298.18, unnumbered paragraph 2, Code
13 1995, is amended to read as follows:

14 The amount estimated ~~and-certified-to-apply-on~~ to pay
15 principal and interest for any one year shall not exceed an
16 amount that could be raised by a property tax levy equal to
17 two dollars and seventy cents per thousand dollars of the
18 assessed valuation of the taxable property of the school
19 corporation except as hereinafter provided.

20 Sec. 66. Section 298.18, unnumbered paragraph 4, Code
21 1995, is amended to read as follows:

22 The amount estimated ~~and-certified-to-apply-on~~ to pay
23 principal and interest for any one year may exceed an amount
24 that could be raised by a property tax levy equal to two
25 dollars and seventy cents per thousand dollars of assessed
26 value by the amount approved by the voters of the school
27 corporation, but not exceeding four dollars and five cents per
28 thousand of the assessed value of the taxable property within
29 any school corporation, provided that the qualified registered
30 voters of such school corporation have first approved such
31 increased amount at a special election, which may be held at
32 the same time as the regular school election. The proposition
33 submitted to the voters at such special election shall be in
34 substantially the following form:

35 Sec. 67. Section 298.18, unnumbered paragraph 6, Code
36 1995, is amended to read as follows:

37 Notice of the election shall be given by the county
38 commissioner of elections according to section 49.53. The
39 election shall be held on a date not less than four nor more
40 than twenty days after the last publication of the notice. At
41 ~~such the~~ the election the ballot used for the submission of ~~said~~
42 the proposition shall be in substantially the form for
43 submitting special questions at general elections. The county
44 commissioner of elections shall conduct the election pursuant
45 to the provisions of chapters 39 to 53 and certify the results
46 to the board of directors. ~~Such~~ The proposition shall not be
47 ~~deemed carried-or~~ adopted unless the vote in favor of ~~such the~~
48 proposition is equal to at least sixty percent of the total
49 vote cast for and against ~~said the~~ proposition at ~~said the~~
50 election. ~~Whenever~~ However, if the board of directors of a

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1 school district elects to offset the annual property tax levy
2 with revenues from an income surtax pursuant to section 76.21,
3 the ballot proposition shall be submitted to the electorate
4 pursuant to section 75.1, subsection 2. If such a proposition
5 has been approved by the voters of a school corporation as
6 hereinbefore provided, no further approval of the voters of
7 such the school corporation shall be required as a result of
8 any subsequent change in the boundaries of such the school
9 corporation.

10 Sec. 68. Section 298.22, unnumbered paragraph 1, Code
11 1995, is amended to read as follows:

12 ~~All-of-said~~ The bonds shall be substantially in the form
13 provided for county bonds, but subject to changes that will
14 conform them to the action of the board providing therefor;
15 shall run-not-more-than-twenty-years mature within the period
16 provided in section 76.1, and may be sooner paid if so
17 nominated in the bond; bear a rate of interest not exceeding
18 that permitted by chapter 74A, payable semiannually; be signed
19 by the president and countersigned by the secretary of the
20 board of directors; and shall not be disposed of for less than
21 par value, nor issued for other purposes than this chapter
22 provides.

23 Sec. 69. Section 331.442, subsection 4, Code Supplement
24 1995, is amended to read as follows:

25 4. The proposition of issuing bonds for a general county
26 purpose is not ~~carried-or~~ adopted unless the vote in favor of
27 the proposition is equal to at least sixty percent of the
28 total vote cast for and against the proposition at the
29 election. However, if the board elects to offset the annual
30 property tax levy with revenues from a local income surtax
31 pursuant to section 76.21, the ballot proposition to authorize
32 the issuance of the bonds shall be submitted to the electorate
33 pursuant to section 75.1, subsection 2. If the proposition of
34 issuing the general county purpose bonds is approved by the
35 voters, the board may proceed with the issuance of the bonds.

36 Sec. 70. Section 331.442, subsection 5, paragraph a,
37 unnumbered paragraph 1, Code Supplement 1995, is amended to
38 read as follows:

39 Notwithstanding subsection 2, a board, in lieu of calling
40 an election, may institute proceedings for the issuance of
41 bonds for a general county purpose by causing a notice of the
42 proposal to issue the bonds, including a statement of the
43 amount and purpose of the bonds, the type or types of debt
44 service tax to be levied or imposed to pay principal and
45 interest on the bonds, and the right to petition for an
46 election, to be published as provided in section 331.305 at
47 least ten days prior to the meeting at which it is proposed to
48 take action for the issuance of the bonds subject to the
49 following limitations:

50 Sec. 71. Section 331.447, subsection 1, Code Supplement

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1 1995, is amended to read as follows:

2 1. Taxes for the payment of general obligation bonds shall
3 be levied or imposed in accordance with chapter 76, and the
4 bonds are payable from the ~~levy of unlimited ad valorem taxes~~
5 ~~on all the taxable property within the county through its debt~~
6 ~~service fund required by section 331.430~~ a debt service
7 property tax or combination of a debt service property tax and
8 a debt service local income surtax, unlimited as to amount,
9 except that:

10 a. The amount estimated ~~and certified to apply to pay on~~
11 principal and interest for any one year shall not exceed an
12 amount that could be raised by a debt service property tax
13 levy equal to the maximum rate of tax, if any, provided by
14 this division for the purpose for which the bonds were issued.
15 If general obligation bonds are issued for different
16 categories, as provided in section 331.445, the maximum rate
17 of levies, if any, for each purpose shall apply separately to
18 that portion of the bond issue for that category and the
19 resolution authorizing the bond issue shall clearly set forth
20 the annual debt service requirements with respect to each
21 purpose in sufficient detail to indicate compliance with the
22 rate of tax levy, if any.

23 b. The amount estimated ~~and certified to apply to pay on~~
24 principal and interest for any one year may only exceed an
25 amount that could be raised by a debt service property tax
26 levy equal to the statutory rate of levy limit, if any, by the
27 amount that the registered voters of the county have approved
28 at a special election, which may be held at the same time as
29 the general election and may be included in the proposition
30 authorizing the issuance of bonds, if an election on the
31 proposition is necessary, or may be submitted as a separate
32 proposition at the same election or at a different election.
33 Notice of the election shall be given as specified in section
34 331.305. If the proposition includes issuing bonds and
35 increasing the levy limit, it shall be in substantially the
36 following form:

37 Shall the county of, state of Iowa, be authorized
38 to (here state purpose of project) at a total cost
39 not exceeding \$..... and issue its general obligation bonds
40 in an amount not exceeding \$..... for that purpose, and be
41 authorized to levy annually a debt service property tax (or
42 debt service property tax, and income surtax to offset the
43 property tax, if applicable), which will produce an amount not
44 exceeding ... dollars and ... cents per thousand dollars of
45 the assessed value of the taxable property within the county
46 to pay the principal of and interest on the bonds?

47 If the proposition includes only increasing the levy limit
48 it shall be in substantially the following form:

49 Shall the county of, state of Iowa, be authorized
50 to levy annually a debt service property tax (or debt service

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1 property tax and income surtax to offset the property tax, if
2 applicable), which will produce an amount not exceeding ...
3 dollars and ... cents per thousand dollars of the assessed
4 value of the taxable property within the county to pay
5 principal and interest on the bonded indebtedness of the
6 county for the purpose of?

7 Sec. 72. Section 331.490, Code 1995, is amended to read as
8 follows:

9 331.490 CITIES SUBJECT TO DEBT SERVICE TAX LEVY -- RATES.

10 1. If a county and city have entered into an agreement to
11 create a joint special assessment district and issue county
12 general obligation bonds to fund the costs of a public
13 improvement benefiting that district, the county's debt ser-
14 vice property tax levy for the county general obligation bonds
15 shall not be levied against property located in any city
16 except a city which has entered into the agreement, and, if
17 applicable, the county's debt service income surtax for the
18 county general obligation bonds shall not be imposed on
19 taxpayers who reside in any city except a city which has
20 entered into the agreement.

21 2. Counties and cities entering into an agreement for a
22 joint special assessment district may provide in the agreement
23 for a different rate of the county's debt service tax levy
24 against property in areas of the county outside a city and
25 property within the cities, and, if applicable, for a
26 different rate of the county's debt service income surtax to
27 be imposed on taxpayers residing outside the cities and those
28 residing within each city.

29 Sec. 73. Section 384.26, subsection 2, Code Supplement
30 1995, is amended to read as follows:

31 2. Before the council may institute proceedings for the
32 issuance of bonds for a general corporate purpose, it shall
33 call a special city election to vote upon the question of
34 issuing the bonds. At the election the proposition must be
35 submitted in substantially the following form:

36 Shall the (insert the name of the city) issue
37 its bonds in an amount not exceeding the amount of \$.... for
38 the purpose of, such bonds to be payable from a
39 property tax levied on all taxable property within the city
40 (and income surtax to offset the property tax to be imposed on
41 the state income tax of each income taxpayer residing in the
42 city)?

43 Sec. 74. Section 384.26, subsection 4, Code Supplement
44 1995, is amended to read as follows:

45 4. The proposition of issuing general corporate purpose
46 bonds is not ~~carried or~~ adopted unless the vote in favor of
47 the proposition is equal to at least sixty percent of the
48 total vote cast for and against the proposition at the
49 election. However, if the city council elects to offset the
50 annual property tax levy with revenues from a local income

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1 surtax pursuant to section 76.21, the ballot proposition to
2 authorize the issuance of the bonds shall be submitted to the
3 electorate pursuant to section 75.1, subsection 2. If the
4 proposition of issuing the general corporate purpose bonds is
5 approved by the voters, the city may proceed with the issuance
6 of the bonds.

7 Sec. 75. Section 384.26, subsection 5, paragraph a,
8 unnumbered paragraph 1, Code Supplement 1995, is amended to
9 read as follows:

10 Notwithstanding the provisions of subsection 2, a council
11 may, in lieu of calling an election, institute proceedings for
12 the issuance of bonds for a general corporate purpose by
13 causing a notice of the proposal to issue the bonds, including
14 a statement of the amount and purpose of the bonds, the type
15 or types of debt service tax to be levied or imposed to pay
16 principal and interest of the bonds, together with the maximum
17 rate of interest which the bonds are to bear, and the right to
18 petition for an election, to be published at least once in a
19 newspaper of general circulation within the city at least ten
20 days prior to the meeting at which it is proposed to take
21 action for the issuance of the bonds subject to the following
22 limitations:

23 Sec. 76. Section 384.32, Code 1995, is amended to read as
24 follows

25 384.32 TAX TO PAY.

26 Taxes for the payment of general obligation bonds must be
27 levied in accordance with chapter 76, and the bonds are
28 payable from the levy of ~~unlimited-ad-valorem-taxes-on-all-the~~
29 ~~taxable-property-within-the-city-through-its-debt-service-fund~~
30 authorized-by-section-384.4 a debt service property tax or a
31 combination of a debt service property tax and a debt service
32 income surtax, unlimited as to amount.

33 Sec. 77. APPLICABILITY DATE. This division
34 of this Act applies to bond
35 issuances approved at elections held on or after the effective
36 date of this division of this Act.

37 DIVISION X

38 PROPERTY TAX STUDY

39 Sec. 78. The legislative council shall direct the
40 establishment of a legislative committee to study the
41 system of local government property taxation. The
42 committee shall conduct a comprehensive review of the
43 property tax system in Iowa, including identifying the
44 various classes of property taxpayers, the portion of
45 property taxes collected from each class of taxpayer,
46 the distribution of those taxes to local governments,
47 and the value of local government services received by
48 a class of taxpayers in relation to the amount of
49 property taxes paid by that class. The committee
50 shall also examine the current system of property tax

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1 credits and exemptions allowed to taxpayers, tax exemptions al
 2 increment financing and tax abatement programs, financing and
 3 property tax credits and exemptions, the effect of tax credits and
 4 abatement programs, and tax increment financing on the
 5 tax rates applied to the other classes of property,
 6 and the general authority of local officials to abate
 7 property taxes.

8 As an integral part of the collection of taxes by
 9 local governments, the committee shall also review the
 10 budgeting procedures and practices of local
 11 governments, including the process of estimating and
 12 spending ending fund balances; the authorization to
 13 use, or the practice of using, unexpended funds or
 14 ending fund balances for capital improvements or other
 15 nonrecurring expenditures; and the impact on property
 16 tax rates of actions of the school budget review
 17 committee, the state appeal board, the application of
 18 the property tax rollback, and the application of
 19 equalization orders issued by the department of
 20 revenue and finance.

21 The committee shall also review the use of property
 22 taxes as the sole or major source of funding for
 23 school, city, and county services and the use of
 24 alternate sources of revenues to pay for such
 25 services, the repayment of bonds or other debt
 26 obligations by local governments, the use of alternate
 27 sources of revenue to repay bonds or other debt
 28 obligations, and the current statutory requirements
 29 for the issuance of bonds or other debt obligations by
 30 local governments."

31 Title page, line 12, by inserting after the
 32 word "credits;" the following: "increasing the school
 33 foundation base level for special education;"

By WILLIAM D. PALMER
 MICHAEL E. GRONSTAL

S-5593 FILED MARCH 28, 1996
 LOST

(p. 1125)

SENATE FILE 2449

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1 Amend the Senate amendment, S-5580, to the House
2 amendment, S-5574, to Senate File 2449, as amended,
3 passed, and reprinted by the Senate, as follows:

4 1. By striking page 1, line 1, through page 27,
5 line 21, and inserting the following:

6 "Amend the House amendment, S-5574, to Senate File
7 2449, as amended, passed, and reprinted by the Senate,
8 as follows:

9 _____. By striking page 1, line 1, through page 6,
10 line 10, and inserting the following:

11 "Amend Senate File 2449, as amended, passed, and
12 reprinted by the Senate, as follows:

13 "_____. By striking everything after the enacting
14 clause and inserting the following:

"DIVISION I

INCOME TAX INDEXATION

17 Section 1. Section 422.4, subsection 1, paragraphs
18 a and d, Code 1995, are amended to read as follows:

19 a. "Annual inflation factor" means an index,
20 expressed as a percentage, determined by the
21 department by October 15 of the calendar year
22 preceding the calendar year for which the factor is
23 determined, which reflects the purchasing power of the
24 dollar as a result of inflation during the fiscal year
25 ending in the calendar year preceding the calendar
26 year for which the factor is determined. In
27 determining the annual inflation factor, the
28 department shall use the annual percent change, but
29 not less than zero percent, in the ~~implicit-price~~
30 ~~deflator-for-the-gross-national-product~~ gross domestic
31 product price deflator computed for the second quarter
32 of the calendar year by the bureau of economic
33 analysis of the United States department of commerce
34 and shall add ~~one-half~~ all of that percent change to
35 one hundred percent. The annual inflation factor and
36 the cumulative inflation factor shall each be
37 expressed as a percentage rounded to the nearest one-
38 tenth of one percent. The annual inflation factor
39 shall not be less than one hundred percent.

40 d. Notwithstanding the computation of the annual
41 inflation factor under paragraph "a", the annual
42 inflation factor is one hundred percent for any
43 calendar year in which the unobligated state general
44 fund balance on June 30 as certified by the director
45 of the department of management by October 10, is less
46 than sixty million dollars. Notwithstanding section
47 8.58, in determining the unobligated state general
48 fund balance on June 30, unobligated moneys in the
49 cash reserve fund and Iowa economic emergency fund on
50 June 30 shall be counted as part of the unobligated

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1 state general fund balance for purposes of this
2 paragraph.

3 Sec. 2. Section 422.4, subsection 2, paragraph a,
4 Code 1995, is amended to read as follows:

5 a. "Annual standard deduction factor" means an
6 index, expressed as a percentage, determined by the
7 department by October 15 of the calendar year
8 preceding the calendar year for which the factor is
9 determined, which reflects the purchasing power of the
10 dollar as a result of inflation during the fiscal year
11 ending in the calendar year preceding the calendar
12 year for which the factor is determined. In
13 determining the annual standard deduction factor, the
14 department shall use the annual percent change, but
15 not less than zero percent, in the ~~implicit-price~~
16 ~~deflator-for-the-gross-national-product~~ gross domestic
17 product price deflator computed for the second quarter
18 of the calendar year by the bureau of economic
19 analysis of the United States department of commerce
20 and shall add ~~one-half~~ all of that percent change to
21 one hundred percent. The annual standard deduction
22 factor and the cumulative standard deduction factor
23 shall each be expressed as a percentage rounded to the
24 nearest one-tenth of one percent. The annual standard
25 deduction factor shall not be less than one hundred
26 percent.

27 Sec. 3. This division of this Act, being deemed of
28 immediate importance, takes effect upon enactment and
29 applies to the computation of the annual inflation
30 factor and annual standard deduction factor for
31 calendar years beginning on or after January 1, 1996.
32 The department of revenue and finance shall adjust the
33 annual inflation factor and annual standard deduction
34 factor previously computed for the 1996 calendar year
35 to reflect the change made in the computation of those
36 factors in this Act.

DIVISION II

INHERITANCE TAXATION

37
38
39 Sec. 4. Section 450.7, subsection 1, unnumbered
40 paragraph 1, Code Supplement 1995, is amended to read
41 as follows:

42 Except for the share of the estate passing to the
43 surviving spouse, father or mother, each son and
44 daughter, including legally adopted sons and daughters
45 or biological sons and daughters, stepchildren, and
46 grandchildren, the tax is a charge against and a lien
47 upon the estate subject to tax under this chapter, and
48 all property of the estate or owned by the decedent
49 from the death of the decedent until paid, subject to
50 the following limitation:

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1 Sec. 5. Section 450.9, subsection 1, Code 1995, is
2 amended to read as follows:

3 1. Surviving spouse, father or mother, son or
4 daughter, including legally adopted sons and daughters
5 or biological sons and daughters, stepchildren, or
6 grandchild, the entire amount of property, interest in
7 property, and income.

8 Sec. 6. Section 450.9, subsections 2 and 3, Code
9 1995, are amended by striking the subsections.

10 Sec. 7. Section 450.10, subsection 1, unnumbered
11 paragraph 1, Code 1995, is amended to read as follows:

12 ~~When the property, interest, or income passes to~~
13 ~~the-father-or-mother,-or-to-a-child-or a lineal~~
14 ~~descendant of the decedent, grantor, donor, or vendor,~~
15 ~~including-a-legally-adopted-child-or-biological-child~~
16 ~~entitled-to-inherit-under-the-laws-of-this-state not~~
17 ~~included in subsection 7, the tax imposed shall be on~~
18 ~~the individual share so passing in excess of the~~
19 ~~exemptions allowed as follows:~~

20 Sec. 8. Section 450.10, subsection 2, unnumbered
21 paragraph 1, Code 1995, is amended to read as follows:

22 ~~When the property or any interest therein in~~
23 ~~property, or income therefrom from property taxable~~
24 ~~under the provisions of this chapter passes to the~~
25 ~~brother or sister, son-in-law, or daughter-in-law, or~~
26 ~~step-children, the rate of tax imposed on the~~
27 ~~individual share so passing shall be as follows:~~

28 Sec. 9. Section 450.10, subsection 7, Code 1995,
29 is amended to read as follows:

30 7. Property, interest in property, or income
31 passing to the surviving spouse, father or mother, son
32 or daughter, including legally adopted sons and
33 daughters or biological sons and daughters, stepchild,
34 or grandchild, is not taxable under this section.

35 Sec. 10. This division of this Act applies to
36 estates of decedents dying on or after July 1, 1996.

37 DIVISION III

38 SCHOOL PROPERTY TAX AND FUNDING

39 Sec. 11. Section 257.1, subsection 2, unnumbered
40 paragraph 2, Code Supplement 1995, is amended to read
41 as follows:

42 For the budget year commencing July 1, ~~1991~~ 1996,
43 and for each succeeding budget year the regular
44 program foundation base per pupil is eighty-three
45 percent of the regular program state cost per pupil,
46 ~~except that the regular program foundation base per~~
47 ~~pupil for the portion of weighted enrollment that is~~
48 ~~additional enrollment because of special education is~~
49 ~~seventy-nine percent of the regular program state cost~~
50 ~~per pupil.~~ For the budget year commencing July 1,

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1 ~~1991~~ 1996, and for each succeeding budget year the
2 special education support services foundation base is
3 ~~seventy-nine~~ eighty-three percent of the special
4 education support services state cost per pupil. The
5 combined foundation base is the sum of the regular
6 program foundation base and the special education
7 support services foundation base.

8 Sec. 12. Section 257.3, subsection 1, unnumbered
9 paragraph 1, Code Supplement 1995, is amended to read
10 as follows:

11 ~~Except-as-provided-in-subsections-2-and-3,~~ a
12 school district shall cause to be levied each year,
13 for the school general fund, a foundation property tax
14 equal to five four dollars and forty seventy cents per
15 thousand dollars of assessed valuation on all taxable
16 property in the district. The county auditor shall
17 spread the foundation levy over all taxable property
18 in the district.

19 Sec. 13. Section 257.3, subsections 2 and 3, Code
20 Supplement 1995, are amended by striking the
21 subsections.

22 Sec. 14. Section 257.3, subsection 4, Code
23 Supplement 1995, is amended to read as follows:

24 4. RAILWAY CORPORATIONS. For purposes of section
25 257.1, the "amount per pupil of foundation property
26 tax" does not include the tax levied under subsection
27 ~~17-27-or-3~~ on the property of a railway corporation,
28 or on its trustee if the corporation has been declared
29 bankrupt or is in bankruptcy proceedings.

30 Sec. 15. Section 275.55, unnumbered paragraph 4,
31 Code 1995, is amended by striking the unnumbered
32 paragraph.

33 Sec. 16. Section 425A.3, subsection 1, Code 1995,
34 is amended to read as follows:

35 1. The family farm tax credit fund shall be
36 apportioned each year in the manner provided in this
37 chapter so as to give a credit against the tax on each
38 eligible tract of agricultural land within the several
39 school districts of the state in which the levy for
40 the general school fund exceeds five four dollars and
41 forty seventy cents per thousand dollars of assessed
42 value. The amount of the credit on each eligible
43 tract of agricultural land shall be the amount the tax
44 levied for the general school fund exceeds the amount
45 of tax which would be levied on each eligible tract of
46 agricultural land were the levy for the general school
47 fund five four dollars and forty seventy cents per
48 thousand dollars of assessed value for the previous
49 year. However, in the case of a deficiency in the
50 family farm tax credit fund to pay the credits in

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1 full, the credit on each eligible tract of
2 agricultural land in the state shall be proportionate
3 and applied as provided in this chapter.

4 Sec. 17. Section 425A.5, Code 1995, is amended to
5 read as follows:

6 425A.5 COMPUTATION BY COUNTY AUDITOR.

7 The family farm tax credit allowed each year shall
8 be computed as follows: On or before March 1, the
9 county auditor shall list by school districts all
10 tracts of agricultural land which are entitled to
11 credit, the taxable value for the previous year, the
12 budget from each school district for the previous
13 year, and the tax rate determined for the general fund
14 of the school district in the manner prescribed in
15 section 444.3 for the previous year, and if the tax
16 rate is in excess of five four dollars and forty
17 seventy cents per thousand dollars of assessed value,
18 the auditor shall multiply the tax levy which is in
19 excess of five four dollars and forty seventy cents
20 per thousand dollars of assessed value by the total
21 taxable value of the agricultural land entitled to
22 credit in the school district, and on or before March
23 1, certify the total amount of credit and the total
24 number of acres entitled to the credit to the
25 department of revenue and finance.

26 Sec. 18. Section 426.3, Code 1995, is amended to
27 read as follows:

28 426.3 WHERE CREDIT GIVEN.

29 The agricultural land credit fund shall be
30 apportioned each year in the manner hereinafter
31 provided in this chapter so as to give a credit
32 against the tax on each tract of agricultural lands
33 within the several school districts of the state in
34 which the levy for the general school fund exceeds
35 five four dollars and forty seventy cents per thousand
36 dollars of assessed value; the amount of ~~such~~ credit
37 on each tract of ~~such~~ lands shall be the amount the
38 tax levied for the general school fund exceeds the
39 amount of tax which would be levied on ~~said the~~ tract
40 of ~~such~~ lands were the levy for the general school
41 fund five four dollars and forty seventy cents per
42 thousand dollars of assessed value for the previous
43 year, except in the case of a deficiency in the
44 agricultural land credits fund to pay ~~said~~ credits in
45 full, in which case the credit on each eligible tract
46 of ~~such~~ lands in the state shall be proportionate and
47 shall be applied as ~~hereinafter~~ provided in this
48 chapter.

49 Sec. 19. Section 426.6, unnumbered paragraph 1,
50 Code 1995, is amended to read as follows:

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1 The agricultural land tax credit allowed each year
2 shall be computed as follows: On or before the first
3 of June the county auditor shall list by school
4 districts all tracts of agricultural lands which they
5 are entitled to credit, together with the taxable
6 value for the previous year, together with the budget
7 from each school district for the previous year, and
8 the tax rate determined for the general fund of the
9 district in the manner prescribed in section 444.3 for
10 the previous year, and if such the tax rate is in
11 excess of five four dollars and forty seventy cents
12 per thousand dollars of assessed value, the auditor
13 shall multiply the tax levy which is in excess of five
14 four dollars and forty seventy cents per thousand
15 dollars of assessed value by the total taxable value
16 of the agricultural lands entitled to credit in the
17 district, and on or before the first of June certify
18 the amount to the department of revenue and finance.

19 Sec. 20.

20 1. Sections 11 through 15 of this division of this
21 Act, being deemed of immediate importance, take effect
22 upon enactment, and apply to the computation of school
23 foundation property taxes payable during school budget
24 years beginning on or after July 1, 1996.

25 2. Sections 16 through 19 of this division of this
26 Act take effect January 1, 1997, and apply to the
27 computation of family farm tax credits and
28 agricultural land tax credits granted for property
29 taxes payable in school budget years beginning on or
30 after July 1, 1997.

31 DIVISION IV

32 FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

33 Sec. 21. Section 425A.1, Code 1995, is amended to
34 read as follows:

35 425A.1 FAMILY FARM TAX CREDIT FUND.

36 The family farm tax credit fund is created in the
37 office of the treasurer of state. There shall be
38 ~~transferred appropriated annually to the fund the~~
39 ~~first-ten-million-dollars-of-the-amount-annually~~
40 ~~appropriated-to-the-agricultural-land-credit-fund,~~
41 ~~provided-in-section-426-1~~ sum of thirty million
42 dollars. Any balance in the fund on June 30 shall
43 revert to the general fund.

44 Sec. 22. Section 425A.2, subsection 4, Code 1995,
45 is amended to read as follows:

46 4. "Designated person" means one of the following:

47 a. If the owner is an individual, the designated
48 person includes the owner of the tract ~~or-a-person~~
49 ~~related-to-the-owner-as,~~ the owner's spouse, parent,
50 grandparent, the owner's child, grandchild, or

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1 stepchild, and their spouses, or the owner's relative
2 within the third degree of consanguinity, and the
3 relative's spouse.

4 b. If the owner is a partnership, a partner, or
5 the partner's spouse.

6 c. If the owner is a family farm corporation, a
7 family member who is a shareholder of the family farm
8 corporation or the shareholder's spouse.

9 d. If the owner is an authorized farm corporation,
10 a shareholder who owns at least fifty-one percent of
11 the stock of the authorized farm corporation or the
12 shareholder's spouse.

13 e. If the owner is an individual who leases the
14 tract to a family farm corporation, a shareholder of
15 the corporation if the combined stock of the family
16 farm corporation owned by the owner of the tract and
17 persons related to the owner as enumerated in
18 paragraph "a" is equal to at least fifty-one percent
19 of the stock of the family farm corporation.

20 f. If the owner is an individual who leases the
21 tract to a partnership, a partner if the combined
22 partnership interest owned by the owner of the tract
23 and persons related to the owner as enumerated in
24 paragraph "a" is equal to at least fifty-one percent
25 of the ownership interest of the partnership.

26 Sec. 23. Section 426.1, Code 1995, is amended to
27 read as follows:

28 426.1 AGRICULTURAL LAND CREDIT FUND.

29 There is created as a permanent fund in the office
30 of the treasurer of state a fund to be known as the
31 agricultural land credit fund, and for the purpose of
32 establishing and maintaining this fund for each fiscal
33 year there is appropriated thereto to the fund from
34 funds in the general fund not otherwise appropriated
35 the sum of ~~thirty-nine~~ twenty-nine million one hundred
36 thousand dollars ~~of which the first ten million~~
37 ~~dollars shall be transferred to and deposited into the~~
38 ~~family farm tax credit fund created in section 425A.1.~~
39 Any balance in said fund on June 30 shall revert to
40 the general fund.

41 Sec. 24. This division of this Act, being deemed
42 of immediate importance, takes effect upon enactment
43 and applies to family farm tax credits and
44 agricultural land credits allowed for property taxes
45 due and payable in fiscal years beginning on or after
46 July 1, 1996.

47 DIVISION V

48 SUBCHAPTER S CORPORATIONS

49 Sec. 25. Section 422.5, subsection 1, paragraph j,
50 Code 1995, is amended by adding the following new

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1 unnumbered paragraph:

2 NEW UNNUMBERED PARAGRAPH. The tax imposed upon the
3 taxable income of a resident shareholder in a
4 corporation which has in effect for the tax year an
5 election under subchapter S of the Internal Revenue
6 Code and carries on business within and without the
7 state shall be computed by reducing the amount
8 determined pursuant to paragraphs "a" through "i" by
9 the amounts of nonrefundable credits under this
10 division and by multiplying this resulting amount by a
11 fraction of which the resident's net income allocated
12 to Iowa, as determined in section 422.8, subsection 2,
13 paragraph "b", is the numerator and the resident's
14 total net income computed under section 422.7 is the
15 denominator. This paragraph also applies to
16 individuals who are residents of Iowa for less than
17 the entire tax year.

18 Sec. 26. Section 422.5, subsection 1, paragraph k,
19 unnumbered paragraph 4, Code 1995, is amended to read
20 as follows:

21 In the case of a resident, including a resident
22 estate or trust, the state's apportioned share of the
23 state alternative minimum tax is one hundred percent
24 of the state alternative minimum tax computed in this
25 subsection. In the case of a resident or part year
26 resident shareholder in a corporation which has in
27 effect for the tax year an election under subchapter S
28 of the Internal Revenue Code and carries on business
29 within and without the state, a nonresident, including
30 a nonresident estate or trust, or an individual,
31 estate, or trust that is domiciled in the state for
32 less than the entire tax year, the state's apportioned
33 share of the state alternative minimum tax is the
34 amount of tax computed under this subsection, reduced
35 by the applicable credits in sections 422.10 through
36 422.12 and this result multiplied by a fraction with a
37 numerator of the sum of state net income allocated to
38 Iowa as determined in section 422.8, subsection 2,
39 paragraph "a" or "b" as applicable, plus tax
40 preference items, adjustments, and losses under
41 subparagraph (1) attributable to Iowa and with a
42 denominator of the sum of total net income computed
43 under section 422.7 plus all tax preference items,
44 adjustments, and losses under subparagraph (1). In
45 computing this fraction, those items excludable under
46 subparagraph (1) shall not be used in computing the
47 tax preference items. Married taxpayers electing to
48 file separate returns or separately on a combined
49 return must allocate the minimum tax computed in this
50 subsection in the proportion that each spouse's

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1 respective preference items, adjustments, and losses
2 under subparagraph (1) bear to the combined preference
3 items, adjustments, and losses under subparagraph (1)
4 of both spouses.

5 Sec. 27. Section 422.8, subsection 2, Code 1995,
6 is amended to read as follows:

7 2. a. Nonresident's net income allocated to Iowa
8 is the net income, or portion thereof, which is
9 derived from a business, trade, profession, or
10 occupation carried on within this state or income from
11 any property, trust, estate, or other source within
12 Iowa. However, income derived from a business, trade,
13 profession, or occupation carried on within this state
14 and income from any property, trust, estate, or other
15 source within Iowa shall not include distributions
16 from pensions, including defined benefit or defined
17 contribution plans, annuities, individual retirement
18 accounts, and deferred compensation plans or any
19 earnings attributable thereto so long as the
20 distribution is directly related to an individual's
21 documented retirement and received while the
22 individual is a nonresident of this state. If a
23 business, trade, profession, or occupation is carried
24 on partly within and partly without the state, only
25 the portion of the net income which is fairly and
26 equitably attributable to that part of the business,
27 trade, profession, or occupation carried on within the
28 state is allocated to Iowa for purposes of section
29 422.5, subsection 1, paragraph "j", and section 422.13
30 and income from any property, trust, estate, or other
31 source partly within and partly without the state is
32 allocated to Iowa in the same manner, except that
33 annuities, interest on bank deposits and interest-
34 bearing obligations, and dividends are allocated to
35 Iowa only to the extent to which they are derived from
36 a business, trade, profession, or occupation carried
37 on within the state.

38 b. A resident's income allocable to Iowa is the
39 income determined under section 422.7 reduced by items
40 of income and expenses from a subchapter S corporation
41 which pass directly to the shareholders under
42 provisions of the Internal Revenue Code and increased
43 by the greatest of the following:

44 (1) The net income or loss of the corporation
45 which is fairly and equitably attributable to this
46 state under section 422.33, subsections 2 and 3.

47 (2) The taxpayer's pro rata share of an amount
48 deemed distributed to shareholders which when added to
49 the salaries, wages, or other compensation for
50 services performed by all shareholders will equal ten

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1 percent of the net income of the corporation computed
2 in accordance with section 422.35 and considering
3 items of income and expense which pass directly to the
4 shareholders under provisions of the Internal Revenue
5 Code before deduction of shareholder's salaries,
6 wages, or other compensation for services performed.
7 (3) Any cash or the value of any property
8 distributions made to the extent they are paid from
9 income upon which Iowa income tax has not been paid as
10 determined under rules of the director.

11 Sec. 28. Section 422.8, Code 1995, is amended by
12 adding the following new subsection:

13 NEW SUBSECTION. 6. If the resident or part year
14 resident is a shareholder of a corporation which has
15 in effect an election under subchapter S of the
16 Internal Revenue Code, subsections 1 and 3 do not
17 apply to any income taxes paid to another state or
18 foreign country on the income from the corporation
19 which has in effect an election under subchapter S of
20 the Internal Revenue Code.

21 Sec. 29. This division of this Act, being deemed
22 of immediate importance, takes effect upon enactment
23 and applies retroactively to January 1, 1996, for tax
24 years beginning on or after that date."

25 _____. Title page, by striking lines 1 through 17
26 and inserting the following: "An Act relating to
27 taxation within the state by changing the computation
28 of the inflation factors for the tax brackets and
29 standard deduction of the state individual income tax,
30 adjusting exemptions from the state inheritance tax,
31 increasing the funding for the family farm tax credit;
32 changing the computation of taxable income of
33 shareholders of subchapter S corporation; and reducing
34 the school district uniform levy for purposes of
35 providing tax relief and providing effective and
36 retroactive and other applicability date
37 provisions."""

By WAYNE D. BENNETT

S-5594 FILED MARCH 28, 1996
RULED OUT OF ORDER

(P.1125)

SENATE FILE 2449

S-5598

1 Amend the House amendment, S-5574, to Senate File
2 2449, as amended, passed, and reprinted by the Senate,
3 as follows:

4 1. By striking page 1, line 1, through page 6,
5 line 10, and inserting the following:

6 "Amend Senate File 2449, as amended, passed, and
7 reprinted by the Senate, as follows:

8 "____. By striking everything after the enacting
9 clause and inserting the following:

"DIVISION I

INCOME TAX INDEXATION

12 Section 1. Section 422.4, subsection 1, paragraphs
13 a and d, Code 1995, are amended to read as follows:

14 a. "Annual inflation factor" means an index,
15 expressed as a percentage, determined by the
16 department by October 15 of the calendar year
17 preceding the calendar year for which the factor is
18 determined, which reflects the purchasing power of the
19 dollar as a result of inflation during the fiscal year
20 ending in the calendar year preceding the calendar
21 year for which the factor is determined. In
22 determining the annual inflation factor, the
23 department shall use the annual percent change, but
24 not less than zero percent, in the ~~implicit-price~~
25 ~~deflator-for-the-gross-national-product~~ gross domestic
26 product price deflator computed for the second quarter
27 of the calendar year by the bureau of economic
28 analysis of the United States department of commerce
29 and shall add ~~one-half~~ all of that percent change to
30 one hundred percent. The annual inflation factor and
31 the cumulative inflation factor shall each be
32 expressed as a percentage rounded to the nearest one-
33 tenth of one percent. The annual inflation factor
34 shall not be less than one hundred percent.

35 d. Notwithstanding the computation of the annual
36 inflation factor under paragraph "a", the annual
37 inflation factor is one hundred percent for any
38 calendar year in which the unobligated state general
39 fund balance on June 30 as certified by the director
40 of the department of management by October 10, is less
41 than sixty million dollars. Notwithstanding section
42 8.58, in determining the unobligated state general
43 fund balance on June 30, unobligated moneys in the
44 cash reserve fund and Iowa economic emergency fund on
45 June 30 shall be counted as part of the unobligated
46 state general fund balance for purposes of this
47 paragraph.

48 Sec. 2. Section 422.4, subsection 2, paragraph a,
49 Code 1995, is amended to read as follows:

50 a. "Annual standard deduction factor" means an

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1 index, expressed as a percentage, determined by the
2 department by October 15 of the calendar year
3 preceding the calendar year for which the factor is
4 determined, which reflects the purchasing power of the
5 dollar as a result of inflation during the fiscal year
6 ending in the calendar year preceding the calendar
7 year for which the factor is determined. In
8 determining the annual standard deduction factor, the
9 department shall use the annual percent change, but
10 not less than zero percent, in the ~~implicit-price~~
11 ~~deflator-for-the-gross-national-product~~ gross domestic
12 product price deflator computed for the second quarter
13 of the calendar year by the bureau of economic
14 analysis of the United States department of commerce
15 and shall add ~~one-half~~ all of that percent change to
16 one hundred percent. The annual standard deduction
17 factor and the cumulative standard deduction factor
18 shall each be expressed as a percentage rounded to the
19 nearest one-tenth of one percent. The annual standard
20 deduction factor shall not be less than one hundred
21 percent.

22 Sec. 3. This division of this Act, being deemed of
23 immediate importance, takes effect upon enactment and
24 applies to the computation of the annual inflation
25 factor and annual standard deduction factor for
26 calendar years beginning on or after January 1, 1996.
27 The department of revenue and finance shall adjust the
28 annual inflation factor and annual standard deduction
29 factor previously computed for the 1996 calendar year
30 to reflect the change made in the computation of those
31 factors in this Act.

DIVISION II

INHERITANCE TAXATION

32
33
34 Sec. 4. Section 450.7, subsection 1, unnumbered
35 paragraph 1, Code Supplement 1995, is amended to read
36 as follows:

37 Except for the share of the estate passing to the
38 surviving spouse, father or mother, each son and
39 daughter, including legally adopted sons and daughters
40 or biological sons and daughters, stepchildren, and
41 grandchildren, the tax is a charge against and a lien
42 upon the estate subject to tax under this chapter, and
43 all property of the estate or owned by the decedent
44 from the death of the decedent until paid, subject to
45 the following limitation:

46 Sec. 5. Section 450.9, subsection 1, Code 1995, is
47 amended to read as follows:

48 1. Surviving spouse, father or mother, son or
49 daughter, including legally adopted sons and daughters
50 or biological sons and daughters, stepchildren, or

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1 grandchild, the entire amount of property, interest in
2 property, and income.

3 Sec. 6. Section 450.9, subsections 2 and 3, Code
4 1995, are amended by striking the subsections.

5 Sec. 7. Section 450.10, subsection 1, unnumbered
6 paragraph 1, Code 1995, is amended to read as follows:

7 When the property, interest, or income passes to
8 ~~the father or mother, or to a child or a~~ lineal
9 descendant of the decedent, grantor, donor, or vendor,
10 ~~including a legally adopted child or biological child~~
11 ~~entitled to inherit under the laws of this state not~~
12 ~~included in subsection 7,~~ the tax imposed shall be on
13 the individual share so passing in excess of the
14 exemptions allowed as follows:

15 Sec. 8. Section 450.10, subsection 2, unnumbered
16 paragraph 1, Code 1995, is amended to read as follows:

17 When the property or any interest therein in
18 property, or income therefrom from property taxable
19 under the provisions of this chapter passes to the
20 brother or sister, son-in-law, or daughter-in-law, or
21 step-children, the rate of tax imposed on the
22 individual share so passing shall be as follows:

23 Sec. 9. Section 450.10, subsection 7, Code 1995,
24 is amended to read as follows:

25 7. Property, interest in property, or income
26 passing to the surviving spouse, father or mother, son
27 or daughter, including legally adopted sons and
28 daughters or biological sons and daughters, stepchild,
29 or grandchild, is not taxable under this section.

30 Sec. 10. This division of this Act applies to
31 estates of decedents dying on or after July 1, 1996.

DIVISION III

SCHOOL PROPERTY TAX AND FUNDING

34 Sec. 11. Section 257.1, subsection 2, unnumbered
35 paragraph 2, Code Supplement 1995, is amended to read
36 as follows:

37 For the budget year commencing July 1, ~~1991~~ 1996,
38 and for each succeeding budget year the regular
39 program foundation base per pupil is eighty-three
40 percent of the regular program state cost per pupil,
41 ~~except that the regular program foundation base per~~
42 ~~pupil for the portion of weighted enrollment that is~~
43 ~~additional enrollment because of special education is~~
44 ~~seventy-nine percent of the regular program state cost~~
45 ~~per pupil.~~ For the budget year commencing July 1,
46 ~~1991~~ 1996, and for each succeeding budget year the
47 special education support services foundation base is
48 seventy-nine eighty-three percent of the special
49 education support services state cost per pupil. The
50 combined foundation base is the sum of the regular

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1 program foundation base and the special education
2 support services foundation base.

3 Sec. 12. Section 257.3, subsection 1, unnumbered
4 paragraph 1, Code Supplement 1995, is amended to read
5 as follows:

6 ~~Except as provided in subsections 2 and 3, a~~ A
7 school district shall cause to be levied each year,
8 for the school general fund, a foundation property tax
9 equal to ~~five~~ four dollars and ~~forty~~ seventy cents per
10 thousand dollars of assessed valuation on all taxable
11 property in the district. The county auditor shall
12 spread the foundation levy over all taxable property
13 in the district.

14 Sec. 13. Section 257.3, subsections 2 and 3, Code
15 Supplement 1995, are amended by striking the
16 subsections.

17 Sec. 14. Section 257.3, subsection 4, Code
18 Supplement 1995, is amended to read as follows:

19 4. RAILWAY CORPORATIONS. For purposes of section
20 257.1, the "amount per pupil of foundation property
21 tax" does not include the tax levied under subsection
22 ~~17-27-or-3~~ on the property of a railway corporation,
23 or on its trustee if the corporation has been declared
24 bankrupt or is in bankruptcy proceedings.

25 Sec. 15. Section 275.55, unnumbered paragraph 4,
26 Code 1995, is amended by striking the unnumbered
27 paragraph.

28 Sec. 16. Section 425A.3, subsection 1, Code 1995,
29 is amended to read as follows:

30 1. The family farm tax credit fund shall be
31 apportioned each year in the manner provided in this
32 chapter so as to give a credit against the tax on each
33 eligible tract of agricultural land within the several
34 school districts of the state in which the levy for
35 the general school fund exceeds ~~five~~ four dollars and
36 ~~forty~~ seventy cents per thousand dollars of assessed
37 value. ~~The amount of the credit on each eligible~~
38 tract of agricultural land shall be the amount the tax
39 levied for the general school fund exceeds the amount
40 of tax which would be levied on each eligible tract of
41 agricultural land were the levy for the general school
42 fund ~~five~~ four dollars and ~~forty~~ seventy cents per
43 thousand dollars of assessed value for the previous
44 year. However, in the case of a deficiency in the
45 family farm tax credit fund to pay the credits in
46 full, the credit on each eligible tract of
47 agricultural land in the state shall be proportionate
48 and applied as provided in this chapter.

49 Sec. 17. Section 425A.5, Code 1995, is amended to
50 read as follows:

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1 425A.5 COMPUTATION BY COUNTY AUDITOR.

2 The family farm tax credit allowed each year shall
3 be computed as follows: On or before March 1, the
4 county auditor shall list by school districts all
5 tracts of agricultural land which are entitled to
6 credit, the taxable value for the previous year, the
7 budget from each school district for the previous
8 year, and the tax rate determined for the general fund
9 of the school district in the manner prescribed in
10 section 444.3 for the previous year, and if the tax
11 rate is in excess of five four dollars and forty
12 seventy cents per thousand dollars of assessed value,
13 the auditor shall multiply the tax levy which is in
14 excess of five four dollars and forty seventy cents
15 per thousand dollars of assessed value by the total
16 taxable value of the agricultural land entitled to
17 credit in the school district, and on or before March
18 1, certify the total amount of credit and the total
19 number of acres entitled to the credit to the
20 department of revenue and finance.

21 Sec. 18. Section 426.3, Code 1995, is amended to
22 read as follows:

23 426.3 WHERE CREDIT GIVEN.

24 The agricultural land credit fund shall be
25 apportioned each year in the manner hereinafter
26 provided in this chapter so as to give a credit
27 against the tax on each tract of agricultural lands
28 within the several school districts of the state in
29 which the levy for the general school fund exceeds
30 five four dollars and forty seventy cents per thousand
31 dollars of assessed value; the amount of such credit
32 on each tract of such lands shall be the amount the
33 tax levied for the general school fund exceeds the
34 amount of tax which would be levied on said the tract
35 of such lands were the levy for the general school
36 fund five four dollars and forty seventy cents per
37 thousand dollars of assessed value for the previous
38 year, except in the case of a deficiency in the
39 agricultural land credits fund to pay said credits in
40 full, in which case the credit on each eligible tract
41 of such lands in the state shall be proportionate and
42 shall be applied as hereinafter provided in this
43 chapter.

44 Sec. 19. Section 426.6, unnumbered paragraph 1,
45 Code 1995, is amended to read as follows:

46 The agricultural land tax credit allowed each year
47 shall be computed as follows: On or before the first
48 of June the county auditor shall list by school
49 districts all tracts of agricultural lands which they
50 are entitled to credit, together with the taxable

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1 value for the previous year, together with the budget
2 from each school district for the previous year, and
3 the tax rate determined for the general fund of the
4 district in the manner prescribed in section 444.3 for
5 the previous year, and if such the tax rate is in
6 excess of five four dollars and forty seventy cents
7 per thousand dollars of assessed value, the auditor
8 shall multiply the tax levy which is in excess of five
9 four dollars and forty seventy cents per thousand
10 dollars of assessed value by the total taxable value
11 of the agricultural lands entitled to credit in the
12 district, and on or before the first of June certify
13 the amount to the department of revenue and finance.

14 Sec. 20.

15 1. Sections 11 through 15 of this division of this
16 Act, being deemed of immediate importance, take effect
17 upon enactment, and apply to the computation of school
18 foundation property taxes payable during school budget
19 years beginning on or after July 1, 1996.

20 2. Sections 16 through 19 of this division of this
21 Act take effect January 1, 1997, and apply to the
22 computation of family farm tax credits and
23 agricultural land tax credits granted for property
24 taxes payable in school budget years beginning on or
25 after July 1, 1997.

26 DIVISION IV

27 FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

28 Sec. 21. Section 425A.1, Code 1995, is amended to
29 read as follows:

30 425A.1 FAMILY FARM TAX CREDIT FUND.

31 The family farm tax credit fund is created in the
32 office of the treasurer of state. There shall be
33 ~~transferred appropriated~~ annually to the fund the
34 ~~first-ten-million-dollars-of-the-amount-annually~~
35 ~~appropriated-to-the-agricultural-land-credit-fund,~~
36 ~~provided-in-section-426.1~~ sum of thirty million
37 dollars. Any balance in the fund on June 30 shall
38 revert to the general fund.

39 Sec. 22. Section 425A.2, subsection 4, Code 1995,
40 is amended to read as follows:

41 4. "Designated person" means one of the following:

42 a. If the owner is an individual, the designated
43 person includes the owner of the tract ~~or-a-person~~
44 ~~related-to-the-owner-as,~~ the owner's spouse, parent,
45 grandparent, the owner's child, grandchild, or
46 stepchild, and their spouses, or the owner's relative
47 within the third degree of consanguinity, and the
48 relative's spouse.

49 b. If the owner is a partnership, a partner, or
50 the partner's spouse.

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1 c. If the owner is a family farm corporation, a
2 family member who is a shareholder of the family farm
3 corporation or the shareholder's spouse.

4 d. If the owner is an authorized farm corporation,
5 a shareholder who owns at least fifty-one percent of
6 the stock of the authorized farm corporation or the
7 shareholder's spouse.

8 e. If the owner is an individual who leases the
9 tract to a family farm corporation, a shareholder of
10 the corporation if the combined stock of the family
11 farm corporation owned by the owner of the tract and
12 persons related to the owner as enumerated in
13 paragraph "a" is equal to at least fifty-one percent
14 of the stock of the family farm corporation.

15 f. If the owner is an individual who leases the
16 tract to a partnership, a partner if the combined
17 partnership interest owned by the owner of the tract
18 and persons related to the owner as enumerated in
19 paragraph "a" is equal to at least fifty-one percent
20 of the ownership interest of the partnership.

21 Sec. 23. Section 426.1, Code 1995, is amended to
22 read as follows:

23 426.1 AGRICULTURAL LAND CREDIT FUND.

24 There is created as a permanent fund in the office
25 of the treasurer of state a fund to be known as the
26 agricultural land credit fund, and for the purpose of
27 establishing and maintaining this fund for each fiscal
28 year there is appropriated ~~thereto~~ to the fund from
29 funds in the general fund not otherwise appropriated
30 the sum of ~~thirty-nine~~ twenty-nine million one hundred
31 thousand dollars ~~of which the first ten million~~
32 ~~dollars shall be transferred to and deposited into the~~
33 ~~family farm tax credit fund created in section 425A.1.~~
34 Any balance in said fund on June 30 shall revert to
35 the general fund.

36 Sec. 24. This division of this Act, being deemed
37 of immediate importance, takes effect upon enactment
38 and applies to family farm tax credits and
39 agricultural land credits allowed for property taxes
40 due and payable in fiscal years beginning on or after
41 July 1, 1996.

42 DIVISION V

43 SUBCHAPTER S CORPORATIONS

44 Sec. 25. Section 422.5, subsection 1, paragraph j,
45 Code 1995, is amended by adding the following new
46 unnumbered paragraph:

47 NEW UNNUMBERED PARAGRAPH. The tax imposed upon the
48 taxable income of a resident shareholder in a
49 corporation which has in effect for the tax year an
50 election under subchapter S of the Internal Revenue

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1 Code and carries on business within and without the
2 state shall be computed by reducing the amount
3 determined pursuant to paragraphs "a" through "i" by
4 the amounts of nonrefundable credits under this
5 division and by multiplying this resulting amount by a
6 fraction of which the resident's net income allocated
7 to Iowa, as determined in section 422.8, subsection 2,
8 paragraph "b", is the numerator and the resident's
9 total net income computed under section 422.7 is the
10 denominator. This paragraph also applies to
11 individuals who are residents of Iowa for less than
12 the entire tax year.

13 Sec. 26. Section 422.5, subsection 1, paragraph k,
14 unnumbered paragraph 4, Code 1995, is amended to read
15 as follows:

16 In the case of a resident, including a resident
17 estate or trust, the state's apportioned share of the
18 state alternative minimum tax is one hundred percent
19 of the state alternative minimum tax computed in this
20 subsection. In the case of a resident or part year
21 resident shareholder in a corporation which has in
22 effect for the tax year an election under subchapter S
23 of the Internal Revenue Code and carries on business
24 within and without the state, a nonresident, including
25 a nonresident estate or trust, or an individual,
26 estate, or trust that is domiciled in the state for
27 less than the entire tax year, the state's apportioned
28 share of the state alternative minimum tax is the
29 amount of tax computed under this subsection, reduced
30 by the applicable credits in sections 422.10 through
31 422.12 and this result multiplied by a fraction with a
32 numerator of the sum of state net income allocated to
33 Iowa as determined in section 422.8, subsection 2,
34 paragraph "a" or "b" as applicable, plus tax
35 preference items, adjustments, and losses under
36 subparagraph (1) attributable to Iowa and with a
37 denominator of the sum of total net income computed
38 under section 422.7 plus all tax preference items,
39 adjustments, and losses under subparagraph (1). In
40 computing this fraction, those items excludable under
41 subparagraph (1) shall not be used in computing the
42 tax preference items. Married taxpayers electing to
43 file separate returns or separately on a combined
44 return must allocate the minimum tax computed in this
45 subsection in the proportion that each spouse's
46 respective preference items, adjustments, and losses
47 under subparagraph (1) bear to the combined preference
48 items, adjustments, and losses under subparagraph (1)
49 of both spouses.

50 Sec. 27. Section 422.8, subsection 2, Code 1995,

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1 is amended to read as follows:

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

33 b. A resident's income allocable to Iowa is the
34 income determined under section 422.7 reduced by items
35 of income and expenses from a subchapter S corporation
36 which pass directly to the shareholders under
37 provisions of the Internal Revenue Code and increased
38 by the greatest of the following:

39 (1) The net income or loss of the corporation
40 which is fairly and equitably attributable to this
41 state under section 422.33, subsections 2 and 3.

42 (2) The taxpayer's pro rata share of an amount
43 deemed distributed to shareholders which when added to
44 the salaries, wages, or other compensation for
45 services performed by all shareholders will equal ten
46 percent of the net income of the corporation computed
47 in accordance with section 422.35 and considering
48 items of income and expense which pass directly to the
49 shareholders under provisions of the Internal Revenue
50 Code before deduction of shareholder's salaries,

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1 wages, or other compensation for services performed.
2 (3) Any cash or the value of any property
3 distributions made to the extent they are paid from
4 income upon which Iowa income tax has not been paid as
5 determined under rules of the director.
6 Sec. 28. Section 422.8, Code 1995, is amended by
7 adding the following new subsection:
8 NEW SUBSECTION. 6. If the resident or part year
9 resident is a shareholder of a corporation which has
10 in effect an election under subchapter S of the
11 Internal Revenue Code, subsections 1 and 3 do not
12 apply to any income taxes paid to another state or
13 foreign country on the income from the corporation
14 which has in effect an election under subchapter S of
15 the Internal Revenue Code.
16 Sec. 29. This division of this Act, being deemed
17 of immediate importance, takes effect upon enactment
18 and applies retroactively to January 1, 1996, for tax
19 years beginning on or after that date."
20 _____. Title page, by striking lines 1 through 17
21 and inserting the following: "An Act relating to
22 taxation within the state by changing the computation
23 of the inflation factors for the tax brackets and
24 standard deduction of the state individual income tax,
25 adjusting exemptions from the state inheritance tax,
26 increasing the funding for the family farm tax credit;
27 changing the computation of taxable income of
28 shareholders of subchapter S corporation; and reducing
29 the school district uniform levy for purposes of
30 providing tax relief and providing effective and
31 retroactive and other applicability date provisions.""

By WAYNE D. BENNETT

S-5598 FILED MARCH 28, 1996
LOST

(p. 1124)

SENATE FILE 2449

S-5602

1 Amend the Palmer et al. amendment, S-5580, to the
2 House amendment, S-5574, to Senate File 2449, as
3 amended, passed, and reprinted by the Senate, as
4 follows:

5 1. Page 26, by inserting after line 24 the
6 following:

"DIVISION

8 Sec. ____ . Section 75.1, Code 1995, is amended to read as
9 follows:

10 75.1 BONDS -- ELECTION -- VOTE REQUIRED.

11 1. When a proposition to authorize an issuance of bonds by
12 a county, township, school corporation, city, or by any local
13 board or commission, is submitted to the electors, ~~such the~~
14 ~~proposition shall not be deemed carried or adopted, anything~~
15 ~~in the statutes to the contrary notwithstanding, unless is~~
16 ~~adopted if the vote in favor of such authorization the~~
17 ~~proposition is equal to at least sixty percent of the total~~
18 ~~vote cast for and against said the proposition at said the~~
19 election.

20 2. Notwithstanding subsection 1, if the annual levy of
21 property tax to pay principal and interest on bonds issued by
22 a county, school corporation, or city is to be offset with
23 revenue from a local income surtax pursuant to section 76.21,
24 the proposition shall so state and the proposition is adopted
25 if the vote in favor of the proposition is equal to a majority
26 of the total vote cast for and against the proposition at the
27 election. However, a bond issuance proposition proposing
28 imposition of an income surtax shall not be presented to the
29 electors if in the first year the income surtax is imposed the
30 total of all income surtaxes authorized by law and imposed in
31 that year on any taxpayer in the political subdivision
32 imposing the surtax would exceed twenty percent. Upon request
33 of the governing authority, the department of management shall
34 certify the cumulative rate of income surtax being imposed in
35 the political subdivision.

36 3. All ballots cast and not counted as a vote for or
37 against the proposition shall not be used in computing the
38 total vote cast for and against ~~said the~~ proposition.

39 4. When a proposition to authorize an issuance of bonds
40 has been submitted to the electors under this section and the
41 proposal fails to gain approval by the required percentage of
42 votes, such proposal, or any proposal which incorporates any
43 portion of the defeated proposal, shall not be submitted to
44 the electors for a period of ~~six~~ twelve months from the date
45 of such regular or special election.

46 Sec. ____ . Section 76.1, Code 1995, is amended to read as
47 follows:

48 76.1 MANDATORY RETIREMENT.

49 ~~Hereafter-issues~~ Issues of bonds ~~of every kind and~~
50 character by counties, cities, and school corporations shall

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1 be consecutively numbered. The annual levy of property tax,
2 or combination of property tax levy and income surtax imposed
3 as provided in section 76.19, shall be sufficient to pay the
4 interest and approximately such that portion of the principal
5 of the bonds as will retire them in a period not exceeding
6 twenty twenty-two years from date of issue. Each issue of
7 bonds shall be scheduled to mature serially in the same order
8 as numbered.

9 Sec. ____ . Section 76.2, Code 1995, is amended to read as
10 follows:

11 76.2 MANDATORY LEVY -- OBLIGATIONS IN ANTICIPATION OF
12 LEVY.

13 The governing authority of these political subdivisions
14 before issuing bonds shall, by resolution, provide for the
15 assessment of an annual levy upon all the taxable property in
16 the political subdivision, or the assessment of an annual
17 property tax levy and imposition of an income surtax under
18 section 76.19, sufficient to pay the ~~interest and~~ principal
19 and interest of the bonds within a period named not exceeding
20 twenty-years that provided in section 76.1. A certified copy
21 of this resolution shall be filed with the county auditor or
22 the auditors of the counties in which the political
23 subdivision is located; and the filing shall make it a duty of
24 the auditors to enter annually this levy for collection from
25 the taxable property within the boundaries of the political
26 subdivision until funds are realized to pay the bonds in full.
27 The property tax levy shall continue to be made against
28 property that is severed from the political subdivision and
29 the income surtax shall continue to be imposed upon the
30 residents of any area severed from the political subdivision
31 after the filing of the resolution until funds are realized to
32 pay the bonds in full.

33 If the a resolution which does not include imposition of an
34 income surtax is filed prior to April 1, or May 1, if the
35 political subdivision is a school district, the annual levy
36 shall begin with the tax levy for collection commencing July 1
37 of that year. If the resolution is filed after April 1, or
38 May 1, in the case of a school district, or if the resolution
39 includes imposition of an income surtax, the annual property
40 tax levy shall begin with the tax levy for collection in the
41 next succeeding fiscal year. If the resolution includes the
42 imposition of a local income surtax and it is filed with the
43 department of revenue and finance prior to August 1, the
44 imposition of the surtax is retroactive to January 1 of that
45 calendar year. If the resolution is filed with the department
46 of revenue and finance on or after August 1, the imposition of
47 the income surtax begins on January 1 of the next calendar
48 year. However, the governing authority of a political
49 subdivision may adjust a levy of taxes made under this section
50 for the purpose of adjusting the annual levies and collections
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1 and income surtax rate for property severed from the political
2 subdivision, subject to the approval of the director of the
3 department of management.

4 If funds, including reserves and amounts available for
5 temporary transfer, are ~~found-to-be~~ insufficient to pay in
6 full any installment of principal or interest, a public issuer
7 of bonds may anticipate the next levy of property taxes
8 pursuant to this section or the imposition of an income surtax
9 under section 76.19 in the manner provided in chapter 74,
10 whether the taxes so anticipated are to be collected in the
11 same or a future fiscal year.

12 To further secure the payment of the bonds, the governing
13 authority shall, by resolution, provide for the assessment of
14 an annual levy of a standby tax upon all taxable property
15 within the political subdivision. A copy of the resolution
16 shall be sent to the county auditor of each county in which
17 the political subdivision is located. The revenues from the
18 standby tax shall be deposited in a special fund and shall be
19 expended only for the payment of principal and interest on the
20 bonds issued as provided in this section, when the revenue
21 from an income surtax as provided in section 76.19 is
22 insufficient. Reserves shall not be built up in this fund in
23 anticipation of a projected default. The governing authority
24 shall adjust the annual standby property tax levy for each
25 year to reflect the amount of revenues in the special fund and
26 the amount of principal and interest which is due in that
27 year.

28 Sec. ____ . Section 76.4, Code 1995, is amended to read as
29 follows:

30 76.4 PERMISSIVE APPLICATION OF FUNDS.

31 Whenever ~~if~~ the governing authority of ~~such~~ a political
32 subdivision ~~shall have~~ has on hand funds derived from any
33 other a source other than taxation which may be appropriated
34 to the payment either of ~~interest or principal or interest,~~ or
35 both principal and interest of such bonds, ~~such~~ the funds may
36 be so appropriated and used and the property tax levy and
37 income surtax rate, if imposed, for the payment of the bonds
38 correspondingly reduced.

39 Sec. ____ . Section 76.7, Code 1995, is amended to read as
40 follows:

41 76.7 PARTICULAR BONDS AFFECTED -- PAYMENT.

42 Counties, cities, and school corporations may at any time
43 ~~or-times~~ extend or renew any legal indebtedness or any part
44 thereof of the indebtedness they may have represented by bonds
45 or certificates where ~~such~~ the indebtedness is payable from a
46 limited annual property tax or from a voted annual property
47 tax, or from an income surtax imposed under section 76.19, and
48 may by resolution fund or refund the ~~same~~ legal indebtedness
49 and issue bonds therefor running not more than twenty years to
50 be known as funding or refunding bonds, and make provision for

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1 the payment of the principal and interest thereof from the
2 proceeds of an annual property tax, or annual property tax and
3 income surtax, for the period covered by such the bonds
4 similar to the tax authorized by law or by the electors for
5 the payment of the indebtedness so extended or renewed.

6 Sec. ____ . NEW SECTION. 76.19 INCOME SURTAX.

7 1. An income surtax may be imposed by a political
8 subdivision as provided in this section, but only if
9 authorized by the electors as provided in section 75.1.
10 2. The income surtax shall be imposed upon state income
11 taxes computed under section 422.5, less credits allowed in
12 sections 422.11A, 422.11B, 422.11C, 422.12, and 422.12B, and
13 shall be imposed upon the state income tax for each calendar
14 year, or for a taxpayer's fiscal year ending during the second
15 half of that calendar year or the first half of the succeeding
16 calendar year, and shall be imposed on all taxpayers residing
17 in the political subdivision on the last day of the applicable
18 tax year, and on taxpayers residing in areas severed from the
19 political subdivision as provided in section 76.2.

20 3. The income surtax shall be imposed to collect an amount
21 that is equivalent to sixty percent of the sum of the prin-
22 cipal and interest of the bonds over the life of the bonds.
23 The rate of the income surtax may be adjusted in any year for
24 the sole purpose of ensuring that an amount equivalent to
25 sixty percent of the principal and interest over the life of
26 the bonds is collected.

27 4. At the time of the annual levy under section 76.2, the
28 governing authority of the political subdivision shall also
29 provide in the resolution for the imposition of the income
30 surtax and shall certify to the department of management such
31 sum expressed in dollars. The department shall determine the
32 rate of income surtax to be imposed based upon the most recent
33 available figures from state income taxes paid by taxpayers
34 residing in the political subdivision. The department shall
35 continue to make such calculations and certify the income
36 surtax rate to the county auditor or the auditors of the
37 counties in which the political subdivision is located with
38 adjustments as provided in this section until the principal
39 and interest on the bonds are paid in full. On or before
40 November 1 of each year in which the income surtax is
41 collected the director of revenue and finance shall deposit
42 with the treasurer of the political subdivision the entire
43 amount of income surtax collected from taxpayers residing in
44 the political subdivision.

45 5. The costs of administration shall be determined by the
46 department of revenue and finance, and shall be based on a
47 share of the total cost of administering the department, in
48 the same proportion as the amount of income surtax collected
49 is to the amount of state income taxes collected.

50 6. The director of revenue and finance shall administer

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1 the income surtax imposed under this chapter and sections
2 422.4, 422.20 to 422.31, 422.68, and 422.72 to 422.75 shall
3 apply with respect to administration of the income surtax.

4 Sec. ____ . NEW SECTION. 76.20 INCOME TAX RETURNS.

5 An income surtax imposed under section 76.19 shall be made
6 a part of the Iowa individual income tax return subject to the
7 conditions and restrictions set forth in section 422.21. The
8 director of revenue and finance shall provide on income tax
9 returns a requirement that each person required to file a re-
10 turn numerically identify the city of residence of the tax-
11 payer and the merged area in which the taxpayer resides.

12 Sec. ____ . NEW SECTION. 76.21 PROPERTY TAX CREDIT --
13 AGRICULTURAL AND RESIDENTIAL PROPERTY.

14 Local income surtax revenues collected under section 76.19
15 shall be used to offset the annual levy of property tax on
16 property assessed as agricultural or residential property.
17 The surtax shall be distributed in the following manner:

18 Upon receipt of the revenues collected from the income
19 surtax, the county treasurer shall notify the county auditor
20 of the amount of income surtax revenues received. The auditor
21 shall determine the amount to be credited to each parcel of
22 real property located in the political subdivision and
23 assessed as agricultural or residential, and shall enter such
24 amount upon the tax lists as a credit against the tax levied
25 on each parcel of real property assessed as agricultural or
26 residential. The county treasurer shall show on each tax
27 receipt the amount of tax credit to be applied against
28 property taxes payable in the fiscal year following the year
29 in which the surtax was collected for each parcel of real
30 property assessed as agricultural or residential. In case of
31 change of ownership, the credit shall remain with the parcel.

32 The amount of the credit funded by revenues from the income
33 surtax imposed under section 76.19 shall be an amount equal to
34 a pro rata share based upon the ratio of the taxable value of
35 each parcel to receive the credit to the total taxable value
36 of the property to receive the credit.

37 Sec. ____ . NEW SECTION. 76.22 DESIGNATION OF TAX.

38 An income surtax imposed under section 76.19 by a school
39 district shall be designated as a school debt service income
40 surtax, an income surtax imposed by a merged area shall be
41 designated as a merged area debt service income surtax, an
42 income surtax imposed under section 76.19 by a city shall be
43 designated a city debt service income surtax, and an income
44 surtax imposed under section 76.19 by a county shall be
45 designated a county debt service income surtax.

46 Sec. ____ . Section 260C.21, Code 1995, is amended to read as
47 follows:

48 260C.21 ELECTION TO INCUR INDEBTEDNESS.

49 1. No indebtedness shall be incurred under section 260C.19
50 until authorized by an election. A proposition to incur

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1 indebtedness and issue bonds for community college purposes
2 shall be deemed carried adopted in a merged area if approved
3 by a sixty percent majority of all voters voting on the
4 proposition in the area. However, if the board elects to
5 offset the annual property tax levy with revenues from a local
6 income surtax pursuant to section 76.21, the ballot
7 proposition to authorize the issuance of the bonds shall be
8 submitted to the electorate pursuant to section 75.1,
9 subsection 2.

10 2. Notwithstanding subsection 1, if the costs of utilities
11 are paid by a community college with funds derived from the
12 levy authorized under section 260C.22, the community college
13 may use the general fund moneys that would have been used to
14 pay the costs of utilities for capital expenditures, may
15 invest the funds, or may incur indebtedness without an
16 election, provided that the payments on the indebtedness
17 incurred, and any interest on the indebtedness, can be made
18 using general funds of the community college and the total
19 payments on the principal and interest on the indebtedness do
20 not exceed the amount of the costs of the utilities.

21 Sec. ____ . Section 296.1, Code 1995, is amended to read as
22 follows:

23 296.1 INDEBTEDNESS AUTHORIZED.

24 Subject to the approval of the voters thereof, school
25 districts are hereby authorized to contract indebtedness and
26 to issue general obligation bonds to provide funds to defray
27 the cost of purchasing, building, furnishing, reconstructing,
28 repairing, improving or remodeling a schoolhouse or
29 schoolhouses and additions thereto, gymnasium, stadium, field
30 house, school bus garage, teachers' or superintendent's home
31 or homes, and procuring a site or sites therefor, or
32 purchasing land to add to a site already owned, or procuring
33 and improving a site for an athletic field, or improving a
34 site already owned for an athletic field, and for any one or
35 more of such purposes. Taxes for the payment of said the
36 bonds shall be levied or imposed in accordance with chapter
37 76, and said the bonds shall mature within a period not
38 ~~exceeding twenty years from date of issue~~ the period provided
39 in section 76.1, shall bear interest at a rate or rates not
40 exceeding that permitted by chapter 74A and shall be of such
41 form as the board of directors of such the school district
42 shall by resolution provide, but the aggregate indebtedness of
43 any school district shall not exceed five percent of the
44 actual value of the taxable property within said the school
45 district, as ascertained by the last preceding state and
46 county tax lists.

47 Sec. ____ . Section 296.6, Code 1995, is amended to read as
48 follows:

49 296.6 BONDS.

50 If the vote in favor of the issuance of such bonds is equal

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1 to at least sixty percent of the total vote cast for and
2 against ~~said the proposition at said the election~~, the board
3 of directors shall issue the ~~same bonds~~ and make provision for
4 payment ~~thereof~~ of the bonds. However, if the board of
5 directors of a school district elects to offset the annual
6 property tax levy with revenues from an income surtax pursuant
7 to section 76.21, the ballot proposition to authorize the
8 issuance of the bonds shall be submitted to the electorate
9 pursuant to section 75.1, subsection 2.

10 Sec. _____. Section 298.14, unnumbered paragraph 1, Code
11 1995, is amended to read as follows:

12 For each fiscal year, the cumulative total of the percents
13 of surtax approved by the board of directors of a school
14 district and collected by the department of revenue and
15 finance under sections 257.21, 257.29, 279.54, and 298.2, and
16 the enrichment surtax under section 442.15, Code 1989, and an
17 income surtax collected by a political subdivision under
18 chapter 422D, shall not exceed twenty percent. In addition,
19 if an income surtax is imposed under section 76.19, the
20 cumulative total of percents of surtax imposed on any taxpayer
21 in a school district under sections 76.19, 257.21, 257.29,
22 279.54, 298.2, 442.15, Code 1989, and chapter 422D shall not
23 exceed twenty percent in the first year in which one or more
24 of these income surtaxes is imposed.

25 Sec. _____. Section 298.18, unnumbered paragraph 2, Code
26 1995, is amended to read as follows:

27 The amount estimated ~~and-certified-to-apply-on to pay~~
28 principal and interest for any one year shall not exceed an
29 amount that could be raised by a property tax levy equal to
30 two dollars and seventy cents per thousand dollars of the
31 assessed valuation of the taxable property of the school
32 corporation except as hereinafter provided.

33 Sec. _____. Section 298.18, unnumbered paragraph 4, Code
34 1995, is amended to read as follows:

35 The amount estimated ~~and-certified-to-apply-on to pay~~
36 principal and interest for any one year may exceed an amount
37 that could be raised by a property tax levy equal to two
38 dollars and seventy cents per thousand dollars of assessed
39 value by the amount approved by the voters of the school
40 corporation, but not exceeding four dollars and five cents per
41 thousand of the assessed value of the taxable property within
42 any school corporation, provided that the qualified registered
43 voters of such school corporation have first approved such
44 increased amount at a special election, which may be held at
45 the same time as the regular school election. The proposition
46 submitted to the voters at such special election shall be in
47 substantially the following form:

48 Sec. _____. Section 298.18, unnumbered paragraph 6, Code
49 1995, is amended to read as follows:

50 Notice of the election shall be given by the county

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1 commissioner of elections according to section 49.53. The
2 election shall be held on a date not less than four nor more
3 than twenty days after the last publication of the notice. At
4 ~~such~~ the election the ballot used for the submission of ~~said~~
5 ~~the~~ proposition shall be in substantially the form for
6 submitting special questions at general elections. The county
7 commissioner of elections shall conduct the election pursuant
8 to the provisions of chapters 39 to 53 and certify the results
9 to the board of directors. ~~Such~~ The proposition shall not be
10 deemed ~~carried-or~~ adopted unless the vote in favor of ~~such~~ the
11 proposition is equal to at least sixty percent of the total
12 vote cast for and against ~~said~~ the proposition at ~~said~~ the
13 election. ~~Whenever~~ However, if the board of directors of a
14 school district elects to offset the annual property tax levy
15 with revenues from an income surtax pursuant to section 76.21,
16 the ballot proposition shall be submitted to the electorate
17 pursuant to section 75.1, subsection 2. If such a proposition
18 has been approved by the voters of a school corporation as
19 hereinbefore provided, no further approval of the voters of
20 ~~such~~ the school corporation shall be required as a result of
21 any subsequent change in the boundaries of ~~such~~ the school
22 corporation.

23 Sec. _____. Section 298.22, unnumbered paragraph 1, Code
24 1995, is amended to read as follows:

25 ~~All-of-said~~ The bonds shall be substantially in the form
26 provided for county bonds, but subject to changes that will
27 conform them to the action of the board ~~providing-therefor;~~
28 ~~shall run-not-more-than-twenty-years~~ mature within the period
29 provided in section 76.1, and may be sooner paid if so
30 nominated in the bond; bear a rate of interest not exceeding
31 that permitted by chapter 74A, payable semiannually; be signed
32 by the president and countersigned by the secretary of the
33 board of directors; and shall not be disposed of for less than
34 par value, nor issued for other purposes than this chapter
35 provides.

36 Sec. _____. Section 331.442, subsection 4, Code Supplement
37 1995, is amended to read as follows:

38 4. The proposition of issuing bonds for a general county
39 purpose is not ~~carried-or~~ adopted unless the vote in favor of
40 the proposition is equal to at least sixty percent of the
41 total vote cast for and against the proposition at the
42 election. However, if the board elects to offset the annual
43 property tax levy with revenues from a local income surtax
44 pursuant to section 76.21, the ballot proposition to authorize
45 the issuance of the bonds shall be submitted to the electorate
46 pursuant to section 75.1, subsection 2. If the proposition of
47 issuing the general county purpose bonds is approved by the
48 voters, the board may proceed with the issuance of the bonds.

49 Sec. _____. Section 331.442, subsection 5, paragraph a,
50 unnumbered paragraph 1, Code Supplement 1995, is amended to

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1 read as follows:

2 Notwithstanding subsection 2, a board, in lieu of calling
3 an election, may institute proceedings for the issuance of
4 bonds for a general county purpose by causing a notice of the
5 proposal to issue the bonds, including a statement of the
6 amount and purpose of the bonds, the type or types of debt
7 service tax to be levied or imposed to pay principal and
8 interest on the bonds, and the right to petition for an
9 election, to be published as provided in section 331.305 at
10 least ten days prior to the meeting at which it is proposed to
11 take action for the issuance of the bonds subject to the
12 following limitations:

13 Sec. ____ . Section 331.447, subsection 1, Code Supplement
14 1995, is amended to read as follows:

15 1. Taxes for the payment of general obligation bonds shall
16 be levied or imposed in accordance with chapter 76, and the
17 bonds are payable from ~~the levy of unlimited ad valorem taxes~~
18 ~~on all the taxable property within the county through its debt~~
19 ~~service fund required by section 331.430~~ a debt service
20 property tax or combination of a debt service property tax and
21 a debt service local income surtax, unlimited as to amount,
22 except that:

23 a. The amount estimated ~~and certified to apply to pay on~~
24 principal and interest for any one year shall not exceed an
25 amount that could be raised by a debt service property tax
26 levy equal to the maximum rate of tax, if any, provided by
27 this division for the purpose for which the bonds were issued.
28 If general obligation bonds are issued for different
29 categories, as provided in section 331.445, the maximum rate
30 of levies, if any, for each purpose shall apply separately to
31 that portion of the bond issue for that category and the
32 resolution authorizing the bond issue shall clearly set forth
33 the annual debt service requirements with respect to each
34 purpose in sufficient detail to indicate compliance with the
35 rate of tax levy, if any.

36 b. The amount estimated ~~and certified to apply to pay on~~
37 principal and interest for any one year may only exceed an
38 amount that could be raised by a debt service property tax
39 levy equal to the statutory rate of levy limit, if any, by the
40 amount that the registered voters of the county have approved
41 at a special election, which may be held at the same time as
42 the general election and may be included in the proposition
43 authorizing the issuance of bonds, if an election on the
44 proposition is necessary, or may be submitted as a separate
45 proposition at the same election or at a different election.
46 Notice of the election shall be given as specified in section
47 331.305. If the proposition includes issuing bonds and
48 increasing the levy limit, it shall be in substantially the
49 following form:

50 Shall the county of, state of Iowa, be authorized

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1 to (here state purpose of project) at a total cost
 2 not exceeding \$..... and issue its general obligation bonds
 3 in an amount not exceeding \$..... for that purpose, and be
 4 authorized to levy annually a debt service property tax (or
 5 debt service property tax, and income surtax to offset the
 6 property tax, if applicable), which will produce an amount not
 7 exceeding ... dollars and ... cents per thousand dollars of
 8 the assessed value of the taxable property within the county
 9 to pay the principal of and interest on the bonds?

10 If the proposition includes only increasing the levy limit
 11 it shall be in substantially the following form:

12 Shall the county of, state of Iowa, be authorized
 13 to levy annually a debt service property tax (or debt service
 14 property tax and income surtax to offset the property tax, if
 15 applicable), which will produce an amount not exceeding ...
 16 dollars and ... cents per thousand dollars of the assessed
 17 value of the taxable property within the county to pay
 18 principal and interest on the bonded indebtedness of the
 19 county for the purpose of?

20 Sec. ____ . Section 331.490, Code 1995, is amended to read as
 21 follows:

22 331.490 CITIES SUBJECT TO DEBT SERVICE TAX LEVY -- RATES.

23 1. If a county and city have entered into an agreement to
 24 create a joint special assessment district and issue county
 25 general obligation bonds to fund the costs of a public
 26 improvement benefiting that district, the county's debt ser-
 27 vice property tax levy for the county general obligation bonds
 28 shall not be levied against property located in any city
 29 except a city which has entered into the agreement, and, if
 30 applicable, the county's debt service income surtax for the
 31 county general obligation bonds shall not be imposed on
 32 taxpayers who reside in any city except a city which has
 33 entered into the agreement.

34 2. Counties and cities entering into an agreement for a
 35 joint special assessment district may provide in the agreement
 36 for a different rate of the county's debt service tax levy
 37 against property in areas of the county outside a city and
 38 property within the cities, and, if applicable, for a
 39 different rate of the county's debt service income surtax to
 40 be imposed on taxpayers residing outside the cities and those
 41 residing within each city.

42 Sec. ____ . Section 384.26, subsection 2, Code Supplement
 43 1995, is amended to read as follows:

44 2. Before the council may institute proceedings for the
 45 issuance of bonds for a general corporate purpose, it shall
 46 call a special city election to vote upon the question of
 47 issuing the bonds. At the election the proposition must be
 48 submitted in substantially the following form:

49 Shall the (insert the name of the city) issue
 50 its bonds in an amount not exceeding the amount of \$.... for

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1 the purpose of, such bonds to be payable from a
2 property tax levied on all taxable property within the city
3 (and income surtax to offset the property tax to be imposed on
4 the state income tax of each income taxpayer residing in the
5 city)?

6 Sec. ____ . Section 384.26, subsection 4, Code Supplement
7 1995, is amended to read as follows:

8 4. The proposition of issuing general corporate purpose
9 bonds is not ~~carried-or~~ adopted unless the vote in favor of
10 the proposition is equal to at least sixty percent of the
11 total vote cast for and against the proposition at the
12 election. However, if the city council elects to offset the
13 annual property tax levy with revenues from a local income
14 surtax pursuant to section 76.21, the ballot proposition to
15 authorize the issuance of the bonds shall be submitted to the
16 electorate pursuant to section 75.1, subsection 2. If the
17 proposition of issuing the general corporate purpose bonds is
18 approved by the voters, the city may proceed with the issuance
19 of the bonds.

20 Sec. ____ . Section 384.26, subsection 5, paragraph a,
21 unnumbered paragraph 1, Code Supplement 1995, is amended to
22 read as follows:

23 Notwithstanding the provisions of subsection 2, a council
24 may, in lieu of calling an election, institute proceedings for
25 the issuance of bonds for a general corporate purpose by
26 causing a notice of the proposal to issue the bonds, including
27 a statement of the amount and purpose of the bonds, the type
28 or types of debt service tax to be levied or imposed to pay
29 principal and interest of the bonds, together with the maximum
30 rate of interest which the bonds are to bear, and the right to
31 petition for an election, to be published at least once in a
32 newspaper of general circulation within the city at least ten
33 days prior to the meeting at which it is proposed to take
34 action for the issuance of the bonds subject to the following
35 limitations:

36 Sec. ____ . Section 384.32, Code 1995, is amended to read as
37 follows

38 384.32 TAX TO PAY.

39 Taxes for the payment of general obligation bonds must be
40 levied in accordance with chapter 76, and the bonds are
41 payable from the levy of ~~unlimited-ad-valorem-taxes-on-all-the~~
42 ~~taxable-property-within-the-city-through-its-debt-service-fund~~
43 ~~authorized-by-section-384.4~~ a debt service property tax or a
44 combination of a debt service property tax and a debt service
45 income surtax, unlimited as to amount.

46 Sec. ____ . APPLICABILITY DATE. This division applies to bond
47 issuances approved at elections held on or after the effective
48 date of this Act."

By LARRY MURPHY
WAYNE BENNETT
MICHAEL E. GRONSTAL

S-5602 FILED MARCH 28, 1996

WITHDRAWN

(P.1125)

SENATE FILE 2449

S-5609

1 Amend the amendment, S-5598, to the House
 2 amendment, S-5574, to Senate File 2449, as amended,
 3 passed, and reprinted by the Senate, as follows:
 4 1. By striking page 1, line 10 through page 4,
 5 line 2.
 6 2. By striking page 6, line 26, through page 10,
 7 line 31, and inserting the following:
 8 "_____. Title page, by striking lines 1 through 17
 9 and inserting the following: "An Act relating to
 10 reducing the school district uniform levy and
 11 providing an effective date.""

By BERL E. PRIEBE

S-5609 FILED MARCH 28, 1996

LOST

(p. 112a)

SENATE FILE 2449

S-5610

1 Amend the amendment, S-5598, to the House
 2 amendment, S-5574, to Senate File 2449, as amended,
 3 passed, and reprinted by the Senate, as follows:
 4 1. Page 4, line 9, by striking the word "seventy"
 5 and inserting the following: "ninety".
 6 2. Page 4, line 36, by striking the word
 7 "seventy" and inserting the following: "ninety".
 8 3. Page 4, line 42, by striking the word
 9 "seventy" and inserting the following: "ninety".
 10 4. Page 5, line 12, by striking the word
 11 "seventy" and inserting the following: "ninety".
 12 5. Page 5, line 14, by striking the word
 13 "seventy" and inserting the following: "ninety".
 14 6. Page 5, line 30, by striking the word
 15 "seventy" and inserting the following: "ninety".
 16 7. Page 5, line 36, by striking the word
 17 "seventy" and inserting the following: "ninety".
 18 8. Page 6, line 6, by striking the word "seventy"
 19 and inserting the following: "ninety".
 20 9. Page 6, line 9, by striking the word "seventy"
 21 and inserting the following: "ninety".
 22 10. Page 6, by inserting after line 25 the
 23 following:
 24 "Sec. _____. Section 425.40, subsection 1, Code
 25 1995, is amended to read as follows:
 26 1. A low-income tax credit and reimbursement fund
 27 is created. There is appropriated annually from the
 28 general fund of the state to the department of revenue
 29 and finance to be credited to the low-income tax
 30 credit and reimbursement fund the sum of thirteen
 31 million five hundred thousand dollars to implement
 32 this division."
 33 11. By renumbering as necessary.

By MERLIN E. BARTZ

S-5610 FILED MARCH 28, 1996

ADOPTED

(p. 1123)

SENATE AMENDMENT TO HOUSE AMENDMENT TO SENATE FILE 2449
H-5736

1 Amend the House amendment, S-5574, to Senate File
2 2449, as amended, passed, and reprinted by the Senate,
3 as follows:

4 1. By striking page 1, line 3, through page 6,
5 line 10, and inserting the following:

6 "_____. By striking everything after the enacting
7 clause and inserting the following:

8 "DIVISION I
9 INCOME TAX INDEXATION

10 Section 1. Section 422.4, subsection 1, paragraph
11 a, Code 1995, is amended to read as follows:

12 a. "Annual inflation factor" means an index,
13 expressed as a percentage, determined by the
14 department by October 15 of the calendar year
15 preceding the calendar year for which the factor is
16 determined, which reflects the purchasing power of the
17 dollar as a result of inflation during the fiscal year
18 ending in the calendar year preceding the calendar
19 year for which the factor is determined. In
20 determining the annual inflation factor, the
21 department shall use the annual percent change, but
22 not less than zero percent, in the ~~implicit-price~~
23 ~~deflator-for-the-gross-national-product~~ gross domestic
24 product price deflator computed for the second quarter
25 of the calendar year by the bureau of economic
26 analysis of the United States department of commerce
27 and shall add ~~one-half~~ all of that percent change to
28 one hundred percent. The annual inflation factor and
29 the cumulative inflation factor shall each be
30 expressed as a percentage rounded to the nearest one-
31 tenth of one percent. The annual inflation factor
32 shall not be less than one hundred percent.

33 Sec. 2. Section 422.4, subsection 2, paragraph a,
34 Code 1995, is amended to read as follows:

35 a. "Annual standard deduction factor" means an
36 index, expressed as a percentage, determined by the
37 department by October 15 of the calendar year
38 preceding the calendar year for which the factor is
39 determined, which reflects the purchasing power of the
40 dollar as a result of inflation during the fiscal year
41 ending in the calendar year preceding the calendar
42 year for which the factor is determined. In
43 determining the annual standard deduction factor, the
44 department shall use the annual percent change, but
45 not less than zero percent, in the ~~implicit-price~~
46 ~~deflator-for-the-gross-national-product~~ gross domestic
47 product price deflator computed for the second quarter
48 of the calendar year by the bureau of economic
49 analysis of the United States department of commerce
50 and shall add ~~one-half~~ all of that percent change to

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1 one hundred percent. The annual standard deduction
2 factor and the cumulative standard deduction factor
3 shall each be expressed as a percentage rounded to the
4 nearest one-tenth of one percent. The annual standard
5 deduction factor shall not be less than one hundred
6 percent.

7 Sec. 3. This division of this Act, being deemed of
8 immediate importance, takes effect upon enactment and
9 applies to the computation of the annual inflation
10 factor and annual standard deduction factor for
11 calendar years beginning on or after January 1, 1996.
12 The department of revenue and finance shall adjust the
13 annual inflation factor and annual standard deduction
14 factor previously computed for the 1996 calendar year
15 to reflect the change made in the computation of those
16 factors in this Act.

17 DIVISION II
18 INHERITANCE TAX

19 Sec. 4. Section 450.9, subsections 2 and 3, Code
20 1995, are amended to read as follows:

21 2. Each son and daughter, including legally
22 adopted sons and daughters, or stepsons and
23 stepdaughters, or biological sons and daughters
24 entitled to inherit under the law of this state, **fifty**
25 **two hundred** thousand dollars.

26 3. Father or mother, **fifteen** fifty thousand
27 dollars.

28 Sec. 5. Section 450.9, Code 1995, is amended by
29 adding the following new subsection after subsection
30 3:

31 NEW SUBSECTION. 3A. Each grandchild, fifty
32 thousand dollars.

33 Sec. 6. This division of this Act takes effect
34 July 1 following enactment of the division and applies
35 to the estates of decedents dying on or after that
36 date.

37 DIVISION III
38 HOMESTEAD, MILITARY, AND LOW-INCOME
39 TAX CREDIT AND REIMBURSEMENT

40 Sec. 7. Section 8.59, Code 1995, is amended to
41 read as follows:

42 8.59 APPROPRIATIONS FREEZE.

43 Notwithstanding contrary provisions of the Code,
44 the amounts appropriated under the applicable sections
45 of the Code for fiscal years commencing on or after
46 July 1, 1993, are limited to those amounts expended
47 under those sections for the fiscal year commencing
48 July 1, 1992. If an applicable section appropriates
49 moneys to be distributed to different recipients and
50 the operation of this section reduces the total amount

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1 to be distributed under the applicable section, the
2 moneys shall be prorated among the recipients. As
3 used in this section, "applicable sections" means the
4 following sections: 53.50, 229.35, 230.8, 230.11,
5 405A.8, 411.20, ~~425.17~~-~~425.39~~-~~426A.17~~ 663.44, and
6 822.5.

7 Sec. 8. Section 425.1, subsection 1, Code 1995, is
8 amended to read as follows:

9 1. A homestead credit fund is created. There is
10 appropriated annually from the general fund of the
11 state to the department of revenue and finance to be
12 credited to the homestead credit fund, ~~an amount~~
13 sufficient the sum of one hundred fourteen million
14 four hundred thousand dollars to implement this
15 chapter.

16 The director of revenue and finance shall issue
17 warrants on the homestead credit fund payable to the
18 county treasurers of the several counties of the state
19 under this chapter.

20 Sec. 9. Section 425.17, subsection 2, paragraph b,
21 Code 1995, is amended to read as follows:

22 b. A person filing a claim for ~~credit-or~~
23 reimbursement under this division who has attained the
24 age of twenty-three years on or before December 31 of
25 the base year or was a head of household on December
26 31 of the base year, as defined in the Internal
27 Revenue Code, but has not attained the age or
28 disability status described in paragraph "a", and was
29 domiciled in this state during the entire base year,
30 and is domiciled in this state at the time the claim
31 is filed or at the time of the person's death in the
32 case of a claim filed by the executor or administrator
33 of the claimant's estate, and was not claimed as a
34 dependent on any other person's tax return for the
35 base year.

36 Sec. 10. Section 425.17, subsection 2, unnumbered
37 paragraph 2, Code 1995, is amended to read as follows:

38 "Claimant" under paragraph "a" ~~or-"b"~~ includes a
39 vendee in possession under a contract for deed and may
40 include one or more joint tenants or tenants in
41 common. In the case of a claim for rent constituting
42 property taxes paid, the claimant shall have rented
43 the property during any part of the base year. If a
44 homestead is occupied by two or more persons, and more
45 than one person is able to qualify as a claimant, the
46 persons may determine among them who will be the
47 claimant. If they are unable to agree, the matter
48 shall be referred to the director of revenue and
49 finance not later than June 1 of each year and the
50 director's decision is final.

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1 Sec. 11. Section 425.23, subsection 1, paragraph
2 b, Code 1995, is amended by striking the paragraph and
3 inserting in lieu thereof the following:

4 b. The reimbursement for a claimant described in
5 section 425.17, subsection 2, paragraph "b", shall be
6 determined as follows:

| 7 | 8 If the household | 9 Percent of rent constituting |
|-------|--------------------------|--------------------------------|
| 10 | 11 income is: | 12 property taxes paid allowed |
| 13 | 14 | 15 as a reimbursement: |
| 10 \$ | 0 - 9,999.99 | 50 |
| 11 | 10,000 - 13,999.99 | 42 |
| 12 | 14,000 - 17,999.99 | 35 |
| 13 | 18,000 - 20,999.99 | 25 |
| 14 | 21,000 - 23,999.99 | 17 |
| 15 | 24,000 - 26,999.99 | 12 |

16 Sec. 12. Section 425.23, subsection 3, paragraph
17 a, Code 1995, is amended to read as follows:

18 a. A person who is eligible to file a claim for
19 credit for property taxes due and who has a household
20 income of six thousand dollars or less and who has an
21 unpaid special assessment levied against the homestead
22 may file a claim with the county treasurer that the
23 claimant had a household income of six thousand
24 dollars or less and that an unpaid special assessment
25 is presently levied against the homestead. The
26 department shall provide to the respective treasurers
27 the forms necessary for the administration of this
28 subsection. The claim shall be filed not later than
29 September 30 of each year. Upon the filing of the
30 claim, interest for late payment shall not accrue
31 against the amount of the unpaid special assessment
32 due and payable. The claim filed by the claimant
33 constitutes a claim for credit of an amount equal to
34 the actual amount due upon the unpaid special
35 assessment, plus interest, payable during the fiscal
36 year for which the claim is filed against the
37 homestead of the claimant. ~~However, where the~~
38 ~~claimant is an individual described in section 425.17,~~
39 ~~subsection 2, paragraph "b", and the tentative credit~~
40 ~~is determined according to the schedule in section~~
41 ~~425.23, subsection 1, paragraph "b", subparagraph (2),~~
42 ~~the claim filed constitutes a claim for credit of an~~
43 ~~amount equal to one-half of the actual amount due and~~
44 ~~payable during the fiscal year.~~ The department of
45 revenue and finance shall, upon the filing of the
46 claim with the department by the treasurer, pay that
47 amount of the unpaid special assessment during the
48 current fiscal year to the treasurer. The treasurer
49 shall submit the claims to the director of revenue and
50 finance not later than October 15 of each year. The

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1 director of revenue and finance shall certify the
2 amount of reimbursement due each county for unpaid
3 special assessment credits allowed under this
4 subsection. The amount of reimbursement due each
5 county shall be paid by the director of revenue and
6 finance on October 20 of each year, drawn upon
7 warrants payable to the respective treasurer. There
8 is appropriated annually from the general fund of the
9 state to the department of revenue and finance an
10 amount sufficient to carry out the provisions of this
11 subsection. The treasurer shall credit any moneys
12 received from the department against the amount of the
13 unpaid special assessment due and payable on the
14 homestead of the claimant.

15 Sec. 13. Section 425.24, Code 1995, is amended to
16 read as follows:

17 425.24 MAXIMUM PROPERTY TAX FOR PURPOSE OF CREDIT
18 OR REIMBURSEMENT.

19 In any case in which property taxes due or rent
20 constituting property taxes paid for any household
21 exceeds one thousand dollars or six hundred dollars in
22 the case of a claimant described in section 425.17,
23 subsection 2, paragraph "b", the amount of property
24 taxes due or rent constituting property taxes paid
25 shall be deemed to have been one thousand dollars or
26 six hundred dollars in the case of a claimant
27 described in section 425.17, subsection 2, paragraph
28 "b", for purposes of this division.

29 Sec. 14. Section 425.39, Code 1995, is amended to
30 read as follows:

31 1. The extraordinary property tax credit and
32 reimbursement fund is created. There is appropriated
33 annually from the general fund of the state to the
34 department of revenue and finance to be credited to
35 the extraordinary property tax credit and
36 reimbursement fund, from funds not otherwise
37 appropriated, ~~an amount sufficient~~ the sum of twelve
38 million five hundred thousand dollars to implement
39 this division.

40 2. If the amount appropriated under subsection 1,
41 ~~as limited by section 8-59,~~ plus any supplemental
42 appropriation made for purposes of this section for a
43 fiscal year is insufficient to pay all claims in full,
44 the director shall pay, in full, all claims to be paid
45 during the fiscal year for reimbursement of rent
46 constituting property taxes paid or if moneys are
47 insufficient to pay all such claims on a pro rata
48 basis. If the amount of claims for credit for
49 property taxes due to be paid during the fiscal year
50 exceed the amount remaining after payment to renters,

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1 the director of revenue and finance shall prorate the
2 payments to the counties for the property tax credit.
3 In order for the director to carry out the
4 requirements of this subsection, notwithstanding any
5 provision to the contrary in this division, claims for
6 reimbursement for rent constituting property taxes
7 paid filed before May 1 of the fiscal year shall be
8 eligible to be paid in full during the fiscal year and
9 those claims filed on or after May 1 of the fiscal
10 year shall be eligible to be paid during the following
11 fiscal year and the director is not required to make
12 payments to counties for the property tax credit
13 before June 15 of the fiscal year.

14 Sec. 15. Section 425.40, Code 1995, is amended to
15 read as follows:

16 425.40 LOW-INCOME FUND CREATED.

17 1. A low-income ~~tax-credit-and rent~~ reimbursement
18 fund is created. There is appropriated annually from
19 the general fund of the state to the low-income rent
20 reimbursement fund the sum of thirteen million five
21 hundred thousand dollars to fund rent reimbursements
22 under this division.

23 2. If the amount appropriated under subsection 1
24 plus any supplemental appropriation made for purposes
25 of this section for a fiscal year is insufficient to
26 pay all claims in full, ~~the director shall pay, in~~
27 ~~full, all claims to be paid during the fiscal year for~~
28 ~~reimbursement of rent constituting property taxes paid~~
29 ~~or if moneys are insufficient to pay~~ all such claims
30 on a pro rata basis. ~~If the amount of claims for~~
31 ~~credit for property taxes due to be paid during the~~
32 ~~fiscal year exceed the amount remaining after payment~~
33 ~~to renters, the director of revenue and finance shall~~
34 ~~prorate the payments to the counties for the property~~
35 ~~tax credit.~~ In order for the director to carry out
36 the requirements of this subsection, notwithstanding
37 any provision to the contrary in this division, claims
38 for reimbursement for rent constituting property taxes
39 paid filed before May 1 of the fiscal year shall be
40 eligible to be paid ~~in full~~ during the fiscal year and
41 those claims filed on or after May 1 of the fiscal
42 year shall be eligible to be paid during the following
43 fiscal year ~~and the director is not required to make~~
44 ~~payments to counties for the property tax credit~~
45 ~~before June 15 of the fiscal year.~~

46 Sec. 16. Section 426A.1, Code 1995, is amended to
47 read as follows:

48 426A.1 APPROPRIATION.

49 There is appropriated from the general fund of the
50 state the amounts necessary sum of two million eight

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1 hundred thousand dollars to fund the credits provided
2 under this chapter.

3 Sec. 17. This division of this Act takes effect
4 July 1, 1996, and applies to homestead, military
5 service, and low-income tax credit and rent
6 reimbursement claims payable in fiscal years beginning
7 on or after July 1, 1996.

8

DIVISION IV

9

SUBCHAPTER S CORPORATIONS

10 Sec. 18. Section 422.4, Code 1995, is amended by
11 adding the following new subsection:

12 NEW SUBSECTION. 15A. "Subchapter S corporation"
13 or "S corporation" means a corporation for which a
14 valid election under section 1362(a) of the Internal
15 Revenue Code is in effect.

16 Sec. 19. Section 422.5, subsection 1, paragraph j,
17 Code 1995, is amended to read as follows:

18 j. (1) The tax imposed upon the taxable income of
19 a nonresident shall be computed by reducing the amount
20 determined pursuant to paragraphs "a" through "i" by
21 the amounts of nonrefundable credits under this
22 division and by multiplying this resulting amount by a
23 fraction of which the nonresident's net income
24 allocated to Iowa, as determined in section 422.8,
25 subsection 2, paragraph "a", is the numerator and the
26 nonresident's total net income computed under section
27 422.7 is the denominator. This provision also applies
28 to individuals who are residents of Iowa for less than
29 the entire tax year.

30 (2) The tax imposed upon the taxable income of a
31 resident shareholder in a subchapter S corporation
32 which makes an election pursuant to section 422.36,
33 subsection 5, paragraph "b", to be taxed as a regular
34 corporation, shall be computed by reducing the amount
35 determined pursuant to paragraphs "a" through "i" by
36 the amounts of nonrefundable credits under this
37 division and by multiplying this resulting amount by a
38 fraction of which the resident's net income allocated
39 to Iowa, as determined in section 422.8, subsection 2,
40 paragraph "b", is the numerator and the resident's
41 total net income as computed under section 422.7 is
42 the denominator. This provision also applies to
43 individuals who are residents of Iowa for less than
44 the entire tax year.

45 (a) In the case of a resident or part-year
46 resident shareholder in a subchapter S corporation
47 which makes an election under section 422.36,
48 subsection 5, paragraph "b", to be taxed as a regular
49 corporation, a taxpayer must completely fill out the
50 return, determine the taxpayer's income tax as if the

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1 taxpayer is not a resident shareholder in a
2 corporation which makes an election pursuant to
3 section 422.36, subsection 5, paragraph "b", and pay
4 the amount of tax which is owed. The taxpayer shall
5 then recompute the taxpayer's income tax liability
6 pursuant to this subparagraph on a special return.
7 This special return shall be filed with the regular
8 return and constitutes a claim for refund of the
9 difference between the amount of tax the taxpayer paid
10 on the regular return and the amount of tax determined
11 on the special return. However, if the amount of tax
12 determined on the special return exceeds the amount of
13 tax paid on the regular return, the taxpayer shall pay
14 the additional amount of tax which is owed on the
15 special return.

16 (b) For any tax year, the aggregate amount of
17 refund claims that shall be paid pursuant to this
18 subparagraph in excess of revenue gains shall not
19 exceed three million five hundred thousand dollars.
20 If, for a tax year, the aggregate amount of refund
21 claims filed pursuant to this subparagraph in excess
22 of revenue gains exceeds three million five hundred
23 thousand dollars, each claim for refund shall be paid
24 on a pro rata basis so that the aggregate amount of
25 refund claims in excess of revenue gains does not
26 exceed three million five hundred thousand dollars.
27 For purposes of the calculation of the three million
28 five hundred thousand dollar limitation provided by
29 this subparagraph subdivision, the department shall
30 take into account all revenue gains as well as revenue
31 losses resulting from the application of the following
32 provisions, including, without limitation, revenue
33 gains arising when the tax calculated under this
34 subparagraph is greater, revenue gains resulting from
35 the denial of tax credits under section 422.8,
36 subsection 6, revenue gains resulting from the
37 taxation of additional income under section 422.7,
38 subsection 35, and revenue gains resulting from the
39 imposition of corporate income taxes on corporations
40 making the election specified in section 422.36,
41 subsection 5, paragraph "b". In the case where refund
42 claims are not allowed in full, the amount of the
43 refund to which the taxpayer is entitled under this
44 subparagraph is the pro rata amount that was paid and
45 the taxpayer is not entitled to a refund of the unpaid
46 portion and is not entitled to carry that amount
47 forward or backward to another tax year. Taxpayers
48 shall not use refunds as estimated payments for the
49 succeeding tax year. The department shall determine
50 by July 1 of the tax year following the tax year for

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1 which the refund claim is filed if the aggregate
2 amount of refund claims in excess of revenue gains
3 exceeds three million five hundred thousand dollars
4 for the tax year. Notwithstanding any provision,
5 interest shall not be due on any refund claims that
6 are paid by September 1 of the tax year following the
7 tax year for which the refund claim is filed. For
8 taxpayers that are fiscal year filers, the amount of
9 the refund claim allowed shall be in the same ratio as
10 the refund claims allowed for the tax year in which
11 the taxpayer's fiscal year began.

12 Sec. 20. Section 422.5, subsection 1, paragraph k,
13 subparagraph (3), unnumbered paragraph 3, Code 1995,
14 is amended to read as follows:

15 In the case of a resident, including a resident
16 estate or trust, the state's apportioned share of the
17 state alternative minimum tax is one hundred percent
18 of the state alternative minimum tax computed in this
19 subsection. In the case of a resident or part-year
20 resident shareholder in a subchapter S corporation
21 which makes an election under section 422.36,
22 subsection 5, paragraph "b" to be taxed as a regular
23 corporation and a nonresident, including a nonresident
24 estate or trust, or an individual, estate, or trust
25 that is domiciled in the state for less than the
26 entire tax year, the state's apportioned share of the
27 state alternative minimum tax is the amount of tax
28 computed under this subsection, reduced by the
29 applicable credits in sections 422.10 through 422.12
30 and this result multiplied by a fraction with a
31 numerator of the sum of state net income allocated to
32 Iowa as determined in section 422.8, subsection 2,
33 paragraph "a" or "b", as applicable, plus tax
34 preference items, adjustments, and losses under
35 subparagraph (1) attributable to Iowa and with a
36 denominator of the sum of total net income computed
37 under section 422.7 plus all tax preference items,
38 adjustments, and losses under subparagraph (1). In
39 computing this fraction, those items excludable under
40 subparagraph (1) shall not be used in computing the
41 tax preference items. Married taxpayers electing to
42 file separate returns or separately on a combined
43 return must allocate the minimum tax computed in this
44 subsection in the proportion that each spouse's
45 respective preference items, adjustments, and losses
46 under subparagraph (1) bear to the combined preference
47 items, adjustments, and losses under subparagraph (1)
48 of both spouses.

49 Sec. 21. Section 422.7, Code Supplement 1995, is
50 amended by adding the following new subsection:

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1 NEW SUBSECTION. 35. In determining gain or loss
2 from the sale or other disposition of stock of a
3 subchapter S corporation which makes an election
4 pursuant to section 422.36, subsection 5, paragraph
5 "b" to be taxed as a regular corporation, the basis of
6 a taxpayer in that stock shall be adjusted for Iowa
7 income tax purposes under rules of the director to
8 reflect any adjustment in Iowa income taxes paid by
9 the taxpayer pursuant to section 422.5, subsection 1,
10 paragraph "j", subparagraph (2).

11 Sec. 22. Section 422.8, subsection 2, Code 1995,
12 is amended to read as follows:

13 2. a. Nonresident's net income allocated to Iowa
14 is the net income, or portion thereof of the net
15 income, which is derived from a business, trade,
16 profession, or occupation carried on within this state
17 or income from any property, trust, estate, or other
18 source within Iowa. However, income derived from a
19 business, trade, profession, or occupation carried on
20 within this state and income from any property, trust,
21 estate, or other source within Iowa shall not include
22 distributions from pensions, including defined benefit
23 or defined contribution plans, annuities, individual
24 retirement accounts, and deferred compensation plans
25 or any earnings attributable thereto so long as the
26 distribution is directly related to an individual's
27 documented retirement and received while the
28 individual is a nonresident of this state. If a
29 business, trade, profession, or occupation is carried
30 on partly within and partly without the state, only
31 the portion of the net income which is fairly and
32 equitably attributable to that part of the business,
33 trade, profession, or occupation carried on within the
34 state is allocated to Iowa for purposes of section
35 422.5, subsection 1, paragraph "j", and section 422.13
36 and income from any property, trust, estate, or other
37 source partly within and partly without the state is
38 allocated to Iowa in the same manner, except that
39 annuities, interest on bank deposits and interest-
40 bearing obligations, and dividends are allocated to
41 Iowa only to the extent to which they are derived from
42 a business, trade, profession, or occupation carried
43 on within the state.

44 b. A resident's income allocated to Iowa is the
45 income determined under section 422.7 reduced by items
46 of income, loss, and expenses from a subchapter S
47 corporation which makes an election pursuant to
48 section 422.36, subsection 5, paragraph "b", to be
49 taxed as a regular corporation, which passes directly
50 to the shareholders under provisions of the Internal

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1 Revenue Code, with the following adjustments:

2 (1) Add cash or value of property distributions
3 made to the extent paid from income upon which Iowa
4 income tax has not been paid as determined under rules
5 of the director.

6 (2) Subtract the amounts of distributions made in
7 subparagraph (1) that were, under rules of the
8 director, distributed to the shareholder to enable the
9 shareholder to pay federal income tax on items of
10 income, loss, and expenses from a subchapter S
11 corporation which makes an election pursuant to
12 section 422.36, subsection 5, paragraph "b", to be
13 taxed as a regular corporation, which pass directly to
14 the shareholders under provisions of the Internal
15 Revenue Code.

16 Sec. 23. Section 422.8, Code 1995, is amended by
17 adding the following new subsection:

18 NEW SUBSECTION. 6. If the resident or part-year
19 resident is a shareholder of a subchapter S
20 corporation which makes an election pursuant to
21 section 422.36, subsection 5, paragraph "b", to be
22 taxed as a regular corporation, subsections 1 and 3 do
23 not apply to any income taxes paid to another state or
24 foreign country on the income from the subchapter S
25 corporation.

26 Sec. 24. Section 422.32, subsection 4, Code
27 Supplement 1995, is amended to read as follows:

28 4. "Corporation" includes joint stock companies,
29 and associations organized for pecuniary profit, and
30 publicly traded partnerships and limited liability
31 companies taxed as corporations under the Internal
32 Revenue Code and any subchapter S corporation which
33 has in effect an election under section 422.36,
34 subsection 5, paragraph "b", to be taxed as a regular
35 corporation.

36 Sec. 25. Section 422.32, Code Supplement 1995, is
37 amended by adding the following new subsection:

38 NEW SUBSECTION. 11. The term "value-added
39 corporation" means a corporation that purchases,
40 receives, or holds personal property of any
41 description and which adds to its value by a process
42 of manufacturing, construction, processing, or
43 combining of different materials, and shall
44 specifically include the economic activity identified
45 in divisions C and D of the standard industrial
46 classification codes appearing in 13 C.F.R. ch. 1(1-1-
47 94 edition), with a view to selling the finished
48 product for gain or profit. A corporation engaged in
49 more than one business activity is a value-added
50 corporation if more than fifty percent of its gross

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1 receipts, figured on a three-year annual average, or
2 such shorter period as the corporation shall have been
3 in existence, are from the processes previously
4 identified.

5 Sec. 26. Section 422.35, unnumbered paragraph 1,
6 Code Supplement 1995, is amended to read as follows:

7 The term "net income" means the taxable income
8 before the net operating loss deduction, as properly
9 computed for federal income tax purposes under the
10 Internal Revenue Code, or in the case of subchapter S
11 corporations that make an election pursuant to section
12 422.36, subsection 5, paragraph "b", "net income"
13 means the sum of all items of distributive shares of
14 income, loss, and expenses of the corporation as
15 determined under rules of the director, with the
16 following adjustments:

17 Sec. 27. Section 422.36, subsection 5, Code 1995,
18 is amended to read as follows:

19 5. a. Where Unless an election is made under
20 paragraph "b" to be taxed under this division, where a
21 corporation is not subject to income tax and the
22 stockholders of such the corporation are taxed on the
23 corporation's income under the provisions of the
24 Internal Revenue Code, the same tax treatment shall
25 apply to such applies to the corporation and such the
26 stockholders for Iowa income tax purposes.

27 b. A subchapter S corporation which is a value-
28 added corporation which does business both within and
29 without the state may elect to be taxed as a regular
30 corporation under this division. The election shall
31 be made not later than the due date for filing its
32 return for the first taxable year for which the
33 election is to be effective, including any extensions
34 beyond that date, on a form provided by the director
35 and signed by the shareholders holding more than one-
36 half of the shares of stock of the corporation on the
37 last day of the first taxable year for which the
38 election is to be effective. The election shall be
39 effective for that taxable year and for subsequent
40 taxable years until revoked.

41 c. The corporation may revoke its election under
42 paragraph "b" by a revocation made not later than the
43 due date for filing its return for the taxable year
44 for which the revocation is to be effective, including
45 any extensions beyond that date, on a form provided by
46 the director and signed by shareholders holding more
47 than one-half of the shares of stock of the
48 corporation on the last day of the first taxable year
49 for which the revocation is to be effective. However,
50 a corporation that has made an election under

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1 paragraph "b" shall not be eligible to make an
2 election under this paragraph for revocation of the
3 election under paragraph "b" for any taxable year
4 before its fourth taxable year following the first
5 taxable year for which the election under paragraph
6 "b" was effective, unless the director consents to the
7 revocation.

8 Sec. 28. This division of this Act, being deemed
9 of immediate importance, takes effect upon enactment
10 and applies retroactively to January 1, 1996, for tax
11 years of individuals beginning on or after that date
12 and for tax years of corporations ending on or after
13 that date.

DIVISION V

QUALIFIED VENTURE CAPITAL COMPANY

16 Sec. 29. NEW SECTION. 15E.175 DEFINITIONS.

17 As used in this section and sections 15E.176 and
18 15E.177:

19 1. "Iowa business" means a business or industry,
20 incorporated or unincorporated, which meets all the
21 following criteria:

22 a. Has or will have, within thirty days after a
23 loan or investment is made by a qualified venture
24 capital company, at least fifty percent of its
25 employees or assets located in Iowa and agrees to
26 maintain at least fifty percent of its employees or
27 assets in Iowa following investment in the business by
28 a qualified venture capital company.

29 b. A business which is unable to raise equity
30 capital or obtain financing from conventional sources
31 in order to remain viable or to commence or expand its
32 ability to provide goods or services.

33 2. "Qualified venture capital company" means a
34 corporation, limited liability company, or a general
35 or limited partnership with its principal place of
36 business located within this state, which meets all of
37 the following requirements:

38 a. Has an initial private capitalization of not
39 less than twenty million dollars.

40 b. Is organized by the Iowa business investment
41 corporation, organized under division XV of this
42 chapter, to directly or indirectly through its
43 subsidiaries or affiliates invest in debt and equity
44 securities of Iowa businesses.

45 c. Seeks approval from the federal small business
46 administration to establish a small business
47 investment company that is incorporated in Iowa and
48 maintains its principal place of business in this
49 state the purpose of which includes increasing the
50 availability of funds for investment in and loans to

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1 Iowa businesses.

2 d. Will provide or arrange for managerial and
3 other advice, assistance, and support for Iowa
4 businesses.

5 e. Does not invest funds under this division for
6 the expansion of operations of an Iowa business in
7 another state.

8 3. "Taxpayer" means an entity subject to tax under
9 chapter 422, division III, chapter 422, division V, or
10 chapter 432.

11 4. "Tax year" means for entities subject to the
12 state corporate income tax or the state franchise tax
13 under chapter 422, division III or V, respectively,
14 the tax year as defined for those divisions or means
15 for insurance companies subject to the gross premiums
16 tax under chapter 432, the calendar year for which the
17 premiums are taxed.

18 Sec. 30. NEW SECTION. 15E.176 TAX CREDITS.

19 1. For tax years beginning on or after January 1,
20 1997, there is allowed a credit against that tax
21 imposed under the corporate income tax in chapter 422,
22 division III, the franchise tax in chapter 422,
23 division V, or the gross premiums tax in chapter 432,
24 for investments made by the taxpayer in a qualified
25 venture capital company whose purpose includes
26 establishing or expanding Iowa business.

27 2. The amount of credit allowed under subsection
28 1, subject to subsection 4, is computed as follows:

29 a. The amount of the qualified venture capital
30 company's investment in Iowa businesses is divided by
31 the amount of new cash invested in the qualified
32 venture capital company.

33 b. The resulting percentage, which shall not
34 exceed fifty percent, is multiplied by the amount of
35 the taxpayer's investment in the qualified venture
36 capital company.

37 c. The amount of the credit is equal to ten
38 percent of the product determined in paragraph "b".

39 d. The qualified venture capital company shall
40 compute as of the end of the qualified venture capital
41 company's tax year the amounts under paragraph "c" for
42 each tax year the qualified venture capital company is
43 entitled to the credit.

44 3. The qualified venture capital company is
45 allowed the credit as computed each year in subsection
46 2 for up to ten consecutive years beginning with the
47 first year for which the credit is taken.

48 If the amount of the credit exceeds the qualified
49 venture capital company's tax liability for the tax
50 year, the excess may be credited to the tax liability

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1 for the following five tax years or until depleted,
2 whichever is the earlier, and is in addition to any
3 other credit allowed under this section.

4 4. Notwithstanding the amount of credit computed
5 in subsection 2, the total amount of credits for all
6 qualified venture capital companies that shall be
7 allowed under subsection 1 for any fiscal year of the
8 qualified venture capital company shall not exceed one
9 million two hundred fifty thousand dollars and for all
10 fiscal years of the qualified venture capital company
11 shall not exceed twelve million five hundred thousand
12 dollars. In determining if the credit allowed has
13 exceeded the fiscal year limit, credits carried over
14 from a previous tax year are not counted.

15 5. The credit provided for in subsection 2, to the
16 extent not previously utilized, shall be freely
17 transferable to and by subsequent transferees for a
18 period of ten years from the date the credit is first
19 available to the qualified venture capital company.

20 Sec. 31. NEW SECTION. 15E.177 COORDINATION OF
21 RESOURCES.

22 If a qualified venture capital company is organized
23 by the Iowa business investment corporation on or
24 before December 31, 1997, within ninety days following
25 its organization, the qualified venture capital
26 company shall develop and submit a written proposal to
27 the shareholders of each business development finance
28 corporation organized pursuant to division XIII of
29 this chapter, calling for the investment of all the
30 assets of each business development finance
31 corporation in securities of the qualified venture
32 capital company. A notice of a special meeting of the
33 shareholders of the business development finance
34 corporation and the written proposal made to the
35 business development finance corporation by the
36 qualified venture capital company shall be delivered
37 to the shareholders of each business development
38 finance corporation entitled to vote at the special
39 shareholders meeting not less than ten nor more than
40 sixty days before the meeting date given by the
41 qualified venture capital company. Action on the
42 written proposal by the board of directors of the
43 business development finance corporation or any other
44 person shall not be required to call the special
45 meeting or authorize voting on the written proposal by
46 the shareholders of the business development finance
47 corporation. If at the special meeting of
48 shareholders of the business development finance
49 corporation or any recesses thereof, a majority of the
50 shareholders present or represented at the special

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1 meeting approve the investment proposed by the
2 qualified venture capital company, the business
3 development finance corporation shall immediately make
4 such an investment of all of its assets. The
5 investment by a business development finance
6 corporation of all of its assets in the qualified
7 venture capital corporation shall not be considered a
8 sale of assets other than in the usual and regular
9 course of business and division XIII of the Iowa
10 business development finance Act shall not apply to
11 the transaction. The qualified venture capital
12 company may make additional proposals as often as it
13 desires to the shareholders of each business
14 development finance corporation that did not approve
15 the initial investment proposal. Except for the
16 requirement that a written proposal be presented to
17 the shareholders within ninety days of the
18 organization of the qualified venture capital company,
19 the provisions of this section shall apply to all
20 additional proposals.

21 Sec. 32. Section 422.33, Code Supplement 1995, is
22 amended by adding the following new subsection:

23 NEW SUBSECTION. 9. There is allowed as a credit
24 against the tax determined in subsection 1 for a tax
25 year an amount equal to the qualified venture capital
26 credit as provided in section 15E.176.

27 Notwithstanding any other provision, the credit
28 allowed for in this subsection shall be applied prior
29 to all other credits allowed the taxpayer. The
30 taxpayer shall not receive for the same investment a
31 credit under subsection 8 and this subsection.

32 Sec. 33. Section 422.60, Code Supplement 1995, is
33 amended by adding the following new subsection:

34 NEW SUBSECTION. 4. There is allowed as a credit
35 against the tax determined in this division for a tax
36 year an amount equal to the qualified venture capital
37 credit as provided in section 15E.176.

38 Notwithstanding any other provision, the credit
39 allowed for in this subsection shall be applied prior
40 to all other credits allowed the taxpayer. The
41 allocation of revenues to a city or county under
42 section 422.65 shall be determined as if the credit
43 under this subsection had not been taken.

44 Sec. 34. Section 432.1, Code 1995, is amended by
45 adding the following new subsection:

46 NEW SUBSECTION. 5. There is allowed as a credit
47 against the tax determined in subsection 1 or 2 for a
48 tax year an amount equal to the qualified venture
49 capital credit as provided in section 15E.176.

50 Notwithstanding any other provision, the credit

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1 allowed for in this subsection shall be applied prior
2 to all other credits allowed the taxpayer.

3 Sec. 35. 1992 Iowa Acts, chapter 1244, section 1,
4 subsection 2, paragraph e, unnumbered paragraph 1, as
5 amended by 1993 Iowa Acts, chapter 180, section 46, as
6 amended by 1994 Iowa Acts, chapter 1201, section 29,
7 is amended to read as follows:

8 For transfer to the treasurer of state for the
9 purpose of facilitating the organization and private
10 capitalization of the small business investment
11 company or other entity under sections 15E.169 through
12 15E.171. If the small business investment company or
13 another entity for which the funds are to be used is
14 not organized ~~within-thirty-six-months-of-the~~
15 ~~effective-date-of-this-Act~~, unused funds shall revert
16 to the general fund of the state, however, if such an
17 entity is organized, the unused funds shall be
18 transferred irrevocably to the qualified venture
19 capital company or other entity for which the funds
20 are to be used:

21 \$ 200,000

22 Sec. 36. APPLICABILITY. This division of this Act
23 applies for tax years of entities subject to the state
24 corporate income tax or franchise tax which begin on
25 or after January 1, 1997. This division of this Act
26 applies for calendar years beginning on or after
27 January 1, 1997, for entities subject to the gross
28 premiums tax under chapter 432.

29 DIVISION VI

30 FAMILY FARM FEEDING OPERATIONS

31 Sec. 37. NEW SECTION. 175A.1 SHORT TITLE.

32 This chapter shall be known and may be cited as the
33 "Iowa Family Farm Animal Feeding Operations
34 Preservation Act".

35 Sec. 38. NEW SECTION. 175A.2 PURPOSE.

36 The purpose of this chapter is to address a grave
37 threat to traditional farmers who produce animals in
38 this state and who face capitalization barriers and
39 the consolidation of animal agriculture, which results
40 in fewer individuals engaged in farming. These
41 conditions result in a loss in population,
42 unemployment and a movement of persons from rural
43 communities to urban areas accompanied by added costs
44 to communities for the creation of new public
45 facilities and services. It is therefore necessary to
46 assist small and medium sized family farm animal
47 feeding operations in order to expand such operations
48 and preserve a way of life which has traditionally
49 supported Iowa's economy and communities.

50 Sec. 39. NEW SECTION. 175A.3 DEFINITIONS.

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- 1 1. "Animal feeding operation" means the same as
2 defined in section 455B.161.
- 3 2. "Animal feeding operation structure" means the
4 same as defined in section 455B.161.
- 5 3. "Animal weight capacity" means the same as
6 defined in section 455B.161.
- 7 4. "Authority" means the agricultural development
8 authority established pursuant to section 175.3.
- 9 5. "Family farm animal feeding operation" or
10 "operation" means an animal feeding operation located
11 on the land where the owner of the operation also
12 engages in farming activities other than animal
13 feeding operation activities, if all of the following
14 criteria are satisfied:
 - 15 a. The total animal weight capacity of all animals
16 other than bovine animals owned by the person is two
17 hundred thousand pounds or less, and the total animal
18 weight capacity of bovine animals owned by the person
19 is four hundred thousand pounds or less.
 - 20 b. A person holding an interest in the animal
21 feeding operation owns all animals confined and fed in
22 the animal feeding operation.
 - 23 c. The person who owns the animal feeding
24 operation raises and harvests crops in the same or an
25 adjoining county where the animal feeding operation is
26 located.
 - 27 d. The person who owns the animal feeding
28 operation is one of the following:
 - 29 (1) A natural person.
 - 30 (2) A general partnership composed exclusively of
31 natural persons.
 - 32 e. Each person who holds an interest in the animal
33 feeding operation resides in this state.
 - 34 f. The animal feeding operation is located
35 entirely within the state.
- 36 6. "Farming" means the same as defined in section
37 175.2.
- 38 7. "Lending institution" means a bank, trust
39 company, mortgage company, national banking
40 association, savings and loan association, life
41 insurance company, any state or federal governmental
42 agency or instrumentality, including without
43 limitation the federal land bank or any of its local
44 associations, or any other financial institution or
45 entity authorized to make farm operating loans in this
46 state.
- 47 8. "Low or moderate net worth" means:
 - 48 a. For an individual, an aggregate net worth of
49 the individual and the individual's spouse and minor
50 children of less than two hundred thousand dollars.

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1 b. For any general partnership, an aggregate net
2 worth of all partners, including each partner's net
3 capital in the partnership, and of each partner's
4 spouse and minor children of less than three hundred
5 thousand dollars. However, the aggregate net worth of
6 each partner and that partner's spouse and minor
7 children shall not exceed two hundred thousand
8 dollars.

9 9. "Net worth" means a person's total assets minus
10 total liabilities as determined in accordance with
11 generally accepted accounting principles with
12 appropriate exceptions and exemptions reasonably
13 related to an equitable determination of a person's
14 net worth. Assets shall be valued at fair market
15 value.

16 10. "Note" means a bond anticipation note or other
17 obligation or evidence of indebtedness issued by the
18 authority pursuant to this chapter.

19 11. "Secured loan" means a financial obligation
20 secured by a chattel mortgage, security agreement, or
21 other instrument creating a lien on an interest in
22 depreciable agricultural property.

23 Sec. 40. NEW SECTION. 175A.4 ASSISTANCE
24 PROGRAMS.

25 1. The authority shall administer programs under
26 this section to assist family farm animal feeding
27 operations. The department of revenue and finance
28 shall assist the authority in administering this
29 section.

30 2. In order to assist a family farm animal feeding
31 operation in financing the operation, including by
32 assisting in whole or in part the acquisition of
33 animals, or the purchase of agricultural land, the
34 purchase of agricultural improvements or depreciable
35 agricultural property, the construction of buildings,
36 facilities, or animal feeding operation structures,
37 related to the operation, the authority shall do all
38 of the following:

39 a. Cooperate with any other state agency or the
40 federal government, including supplementing assistance
41 provided by another state agency and the federal
42 government.

43 b. Administer other programs provided under
44 chapter 175, including supplementing assistance
45 provided by other programs.

46 c. Provide certification necessary to allow owners
47 of operations to claim an income tax credit as
48 provided in section 175A.5, and a property tax
49 exemption pursuant to section 427.1.

50 d. Administer the following programs:

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1 (1) A loan guarantee program to provide for
2 guaranteeing of all or part of a loan made to the
3 operation.

4 (2) An interest buy-down program, in which the
5 authority contracts with a participating lending
6 institution to reduce the interest rate charged on a
7 loan to the operation. The authority shall determine
8 the amount that the rate is reduced by considering the
9 lending institution's customary loan rate for the type
10 of loan sought as certified to the authority by the
11 lending institution. As part of the contract, in
12 order to reimburse the lending institution for the
13 reduction of the interest rate on the loan, the
14 authority may agree to grant the lending institution
15 any amount foregone by reducing the interest rate on
16 that portion of the loan which is three hundred
17 thousand dollars or less. However, the amount
18 reimbursed shall not be more than fifty percent of the
19 amount of interest foregone by the lending institution
20 on the loan.

21 3. The amount of assistance awarded to a family
22 farm animal feeding operation shall be based on the
23 extent to which the following apply:

24 a. The operation has a low or moderate net worth.

25 b. The owner of the family farm animal feeding
26 operation utilizes a computer or recordkeeping system
27 designed to monitor herd performance, as approved by
28 Iowa state university.

29 c. The person managing the operation is actively
30 engaged in improving the management of the operation,
31 which may include participating in the livestock
32 producers assistance program provided pursuant to
33 section 266.39D, or employing a person qualified by
34 the American registry of professional animal science,
35 who is actively engaged in the profession of
36 consulting with livestock producers for the purpose of
37 increasing production or enhancing performance of
38 livestock.

39 4. In order to participate in a program
40 administered under this section, all of the following
41 must apply:

42 a. The family farm animal feeding operation or any
43 person holding an interest in the operation is not
44 classified as a habitual violator as provided in
45 section 455B.191.

46 b. The assistance provided by the authority under
47 this section is not used to construct, repair, or
48 expand an anaerobic lagoon or earthen manure storage
49 basin as defined in section 455B.161.

50 5. a. The authority shall adopt rules to

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1 administer this section, including the enforcement of
2 terms of a contract to which the authority is a party.
3 The authority may require a lending institution or a
4 family farm animal feeding operation to submit
5 evidence satisfactory to the authority that the
6 lending institution or operation has complied with the
7 authority's requirements.

8 b. The authority may inspect any records of a
9 lending institution or a family farm animal feeding
10 operation which are pertinent to the administration of
11 a program. In order to assure compliance with this
12 section and rules adopted pursuant to this section,
13 the authority may establish by rule appropriate
14 enforcement provisions, including but not limited to,
15 the payment of civil penalties by a lending
16 institution or operation. The authority may also
17 enforce the provisions of this section or terms of the
18 contract by bringing an action in any court of
19 competent jurisdiction to recover damages.

20 5. A lending institution and the borrower
21 participating in a program under this section shall
22 each pay to the authority one-half of an origination
23 fee which shall not exceed one percent of the loan.
24 In addition, the lending institution shall pay a fee
25 equal to twenty-five basis points on the loan to the
26 authority on an annual basis.

27 7. The fact that the family farm animal feeding
28 operation or the person who owns the operation has
29 received assistance, monetary or otherwise, from the
30 authority shall not prevent the operation from being
31 eligible for assistance under programs available under
32 this section.

33 Sec. 41. NEW SECTION. 175A.5 INCOME TAX CREDIT.

34 1. A family farm animal feeding operation which
35 receives at least ten thousand dollars in assistance
36 under section 175A.4 as certified by the authority
37 under section 175A.4 shall be entitled to receive a
38 tax credit equal to ten percent of all new investments
39 made in the operation not later than the tax year
40 following the tax year in which the operation receives
41 assistance under section 175A.4.

42 2. For purposes of this section, "new investment"
43 means the capitalized cost of all real and personal
44 property related to the family farm animal feeding
45 operation, including animals; buildings and animal
46 feeding operation structures qualifying under this
47 section; equipment; and other improvements to the
48 operation, purchased or otherwise acquired or
49 relocated to the operation. "New investment" does not
50 include intangible property, or furniture and

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1 furnishings. For the purposes of this section,
2 capitalized cost of property shall be determined in
3 accordance with accounting methods used by the
4 taxpayer in determining the taxpayer's income for
5 state tax purposes.

6 3. Any credit in excess of the tax liability for
7 the tax year may be applied to the tax liability for
8 the following ten years or until depleted, whichever
9 occurs first.

10 4. The department of revenue and finance shall
11 adopt any rules necessary to administer this section.

12 Sec. 42. NEW SECTION. 175A.6 FAMILY FARM ANIMAL
13 FEEDING OPERATION FUND.

14 1. A family farm animal feeding operation fund is
15 created within the state treasury under the control of
16 the authority. The fund shall consist of any moneys
17 appropriated by the general assembly, fees paid to the
18 authority, and any other moneys available to and
19 obtained or accepted by the authority from the federal
20 government or private sources for placement in the
21 fund. Moneys shall be deposited in the fund as
22 provided in section 175A.7. Not more than one hundred
23 fifty thousand dollars shall be available annually
24 from the fund for administration of section 175A.4.
25 The assets of the fund shall be used by the authority
26 only for carrying out the purposes of section 175A.1
27 and section 427.1, subsection 28.

28 2. In administering the fund the authority may do
29 all of the following:

30 a. Contract, sue and be sued, and adopt
31 administrative rules necessary to administer this
32 section. However, the authority shall not in any
33 manner directly or indirectly pledge the credit of the
34 state.

35 b. Authorize payment from the fund for costs,
36 commissions, attorney fees, and other reasonable
37 expenses, including expenses related to carrying out
38 duties necessary for administering programs provided
39 for under section 175A.4, including for guaranteeing
40 loans, and for the recovery of loan moneys guaranteed
41 or the management of property acquired in connection
42 with such loans.

43 3. Payments of interest, recaptures of awards, or
44 repayments of moneys provided in assistance under
45 section 175A.4 shall be deposited into the fund.
46 Section 8.33 does not apply to any moneys in the fund
47 until June 30, 2001. Notwithstanding section 12C.7,
48 interest or earnings on investments or time deposits
49 of the moneys in the fund shall be credited to the
50 fund.

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1 4. The fund is subject to an annual audit as
2 provided by the authority. Moneys in the fund, which
3 may be subject to warrants written by the director of
4 revenue and finance, shall be drawn upon the written
5 requisition of the authority's executive director.

6 Sec. 43. NEW SECTION. 175A.7 STANDING
7 APPROPRIATION.

8 For each fiscal year of the fiscal period beginning
9 July 1, 1996, and ending June 30, 2002, there is
10 appropriated twelve million dollars from the general
11 fund of the state to the family farm animal feeding
12 operation fund created in section 175A.6.

13 Sec. 44. Section 427.1, Code Supplement 1995, is
14 amended by adding the following new subsection:

15 NEW SUBSECTION. 28. The property of a family farm
16 animal feeding operation as defined in section 175A.3,
17 which receives at least ten thousand dollars in
18 assistance awarded and certified by the agricultural
19 development authority under section 175A.4 shall be
20 exempt from taxation for a period of five years, to
21 the extent provided in this subsection.

22 a. The exemption shall apply as follows:

23 (1) It begins on January 1 of the year following
24 the year in which the family farm animal feeding
25 operation receives assistance under section 175A.4.

26 (2) It is limited to the market value, as defined
27 in section 441.21, of the property of the family farm
28 animal feeding operation. If the property of the
29 family farm animal feeding operation is assessed with
30 other property as a unit, the exemption shall be
31 limited to the net market value of the property of the
32 family farm animal feeding operation determined as of
33 the assessment date.

34 b. In order to receive the exemption, the owner of
35 the operation must file for the exemption with the
36 assessing authority not later than the first of
37 February of the first year for which the exemption
38 applies, on forms provided by the agricultural
39 development authority. The application shall provide
40 a description of the family farm animal feeding
41 operation subject to the exemption. The application
42 shall be accompanied by a certificate of assistance
43 provided by the agricultural development authority.

44 c. The assessing authority shall retain a
45 permanent file of current exemptions filed in the
46 assessing authority's office. Not later than July 6
47 of each year, the assessing authority shall remit a
48 statement certifying the total amount of exemptions
49 allowed under this subsection. After receiving the
50 certification, the agricultural development authority

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1 shall draw warrants on the family farm animal feeding
2 operation fund created in section 175A.6 which shall
3 be payable to the county treasurer in the amount
4 certified by the assessing authority, and shall mail
5 the warrants to the county treasurers on August 15 of
6 each year. However, if the family farm animal feeding
7 operation fund does not have sufficient moneys
8 available to pay in full the total of the amounts
9 certified to the agricultural development authority,
10 the authority shall prorate unobligated and
11 unencumbered moneys in the fund to the county
12 treasurers.

13 d. If the county treasurer has received a
14 percentage amount of the amount certified to the
15 agricultural development authority, the county
16 treasurer shall for the following fiscal year grant
17 each exemption from the previous fiscal year an
18 exemption equal to the percentage amount which the
19 county treasurer was reimbursed for that exemption
20 unless the reimbursement for that exemption is fully
21 funded by February 1 preceding the next fiscal year.

22 Sec. 45. FUTURE REPEAL.

23 1. Sections 175A.5 and 175A.7 are repealed.

24 2. Section 427.1, subsection 28, is amended by
25 striking the subsection.

26 3. This section takes effect on July 1, 2002.

27 4. Notwithstanding this section, an income tax
28 credit granted pursuant to section 175A.5, or a
29 property tax exemption provided under section 427.1,
30 subsection 28, shall continue in effect and shall be
31 administered and enforced until its expiration as
32 provided in this division of this Act.

33 DIVISION VII

34 FAMILY FARM AND AGRICULTURAL LAND TAX CREDITS

35 Sec. 46. Section 425A.1, Code 1995, is amended to
36 read as follows:

37 425A.1 FAMILY FARM TAX CREDIT FUND.

38 The family farm tax credit fund is created in the
39 office of the treasurer of state. There shall be
40 ~~transferred appropriated~~ annually to the fund the
41 ~~first-ten-million-dollars-of-the-amount-annually~~
42 ~~appropriated-to-the-agricultural-land-credit-fund,~~
43 ~~provided-in-section-426.1~~ sum of thirty-five million
44 dollars. Any balance in the fund on June 30 shall
45 revert to the general fund.

46 Sec. 47. Section 425A.2, subsection 4, Code 1995,
47 is amended to read as follows:

48 4. "Designated person" means one of the following:

49 a. If the owner is an individual, the designated
50 person includes the owner of the tract ~~or-a-person~~

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1 ~~related-to-the-owner-as~~, the owner's spouse, parent,
2 grandparent, the owner's child, grandchild, or
3 stepchild, and their spouses, or the owner's relative
4 within the third degree of consanguinity, and the
5 relative's spouse.

6 b. If the owner is a partnership, a partner, or
7 the partner's spouse.

8 c. If the owner is a family farm corporation, a
9 family member who is a shareholder of the family farm
10 corporation or the shareholder's spouse.

11 d. If the owner is an authorized farm corporation,
12 a shareholder who owns at least fifty-one percent of
13 the stock of the authorized farm corporation or the
14 shareholder's spouse.

15 e. If the owner is an individual who leases the
16 tract to a family farm corporation, a shareholder of
17 the corporation if the combined stock of the family
18 farm corporation owned by the owner of the tract and
19 persons related to the owner as enumerated in
20 paragraph "a" is equal to at least fifty-one percent
21 of the stock of the family farm corporation.

22 f. If the owner is an individual who leases the
23 tract to a partnership, a partner if the combined
24 partnership interest owned by the owner of the tract
25 and persons related to the owner as enumerated in
26 paragraph "a" is equal to at least fifty-one percent
27 of the ownership interest of the partnership.

28 Sec. 48. Section 426.1, Code 1995, is amended to
29 read as follows:

30 426.1 AGRICULTURAL LAND CREDIT FUND.

31 There is created as a permanent fund in the office
32 of the treasurer of state a fund to be known as the
33 agricultural land credit fund, and for the purpose of
34 establishing and maintaining this fund for each fiscal
35 year there is appropriated ~~thereto~~ to the fund from
36 funds in the general fund not otherwise appropriated
37 the sum of ~~thirty-nine~~ twenty-nine million one hundred
38 thousand dollars ~~of which the first ten million~~
39 ~~dollars shall be transferred to and deposited into the~~
40 ~~family farm tax credit fund created in section 425A-1.~~
41 Any balance in said fund on June 30 shall revert to
42 the general fund.

43 Sec. 49. This division of this Act, being deemed
44 of immediate importance, takes effect upon enactment
45 and applies to family farm tax credits and
46 agricultural land credits allowed for property taxes
47 due and payable in fiscal years beginning on or after
48 July 1, 1996.

49

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DIVISION VIII
SCHOOL FUNDING

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1 Sec. 50. Section 257.1, subsection 2, unnumbered
2 paragraph 2, Code Supplement 1995, is amended to read
3 as follows:

4 For the budget year commencing July 1, ~~1991~~ 1996,
5 and for each succeeding budget year the regular
6 program foundation base per pupil is eighty-three
7 percent of the regular program state cost per pupil,
8 ~~except that the regular program foundation base per~~
9 ~~pupil for the portion of weighted enrollment that is~~
10 ~~additional enrollment because of special education is~~
11 ~~seventy-nine percent of the regular program state cost~~
12 ~~per pupil.~~ For the budget year commencing July 1,
13 ~~1991~~ 1996, and for each succeeding budget year the
14 special education support services foundation base is
15 ~~seventy-nine~~ eighty-three percent of the special
16 education support services state cost per pupil. The
17 combined foundation base is the sum of the regular
18 program foundation base and the special education
19 support services foundation base.

20 Sec. 51. EFFECTIVE DATE. This division of this
21 Act, being deemed of immediate importance, takes
22 effect upon enactment for calculating state foundation
23 aid for school budget years commencing on or after
24 July 1, 1996.

DIVISION IX

PROPERTY TAX STUDY

25
26
27 Sec. 52. The legislative council shall direct the
28 establishment of a legislative committee to study the
29 system of local government property taxation. The
30 committee shall conduct a comprehensive review of the
31 property tax system in Iowa, including identifying the
32 various classes of property taxpayers, the portion of
33 property taxes collected from each class of taxpayer,
34 the distribution of those taxes to local governments,
35 and the value of local government services received by
36 a class of taxpayers in relation to the amount of
37 property taxes paid by that class. The committee
38 shall also examine the current system of property tax
39 credits and exemptions allowed to taxpayers, tax
40 increment financing and tax abatement programs,
41 property tax credits and exemptions, the effect of tax
42 abatement programs, and tax increment financing on the
43 tax rates applied to the other classes of property,
44 and the general authority of local officials to abate
45 property taxes.

46 As an integral part of the collection of taxes by
47 local governments, the committee shall also review the
48 budgeting procedures and practices of local
49 governments, including the process of estimating and
50 spending ending fund balances; the authorization to

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1 use, or the practice of using, unexpended funds or
 2 ending fund balances for capital improvements or other
 3 nonrecurring expenditures; and the impact on property
 4 tax rates of actions of the school budget review
 5 committee, the state appeal board, the application of
 6 the property tax rollback, and the application of
 7 equalization orders issued by the department of
 8 revenue and finance.

9 The committee shall also review the use of property
 10 taxes as the sole or major source of funding for
 11 school, city, and county services and the use of
 12 alternate sources of revenues to pay for such
 13 services, the repayment of bonds or other debt
 14 obligations by local governments, the use of alternate
 15 sources of revenue to repay bonds or other debt
 16 obligations, and the current statutory requirements
 17 for the issuance of bonds or other debt obligations by
 18 local governments."

19 . Title page , line 12, by inserting after the
 20 word "credits;" the following: "increasing the school
 21 foundation base level for special education;".

RECEIVED FROM THE SENATE

H-5736 FILED APRIL 1, 1996

House Refused
 4-1-96
 (P. 1166)

Senate Inserts
 4-8-96
 (P. 1265)

REPORT OF THE CONFERENCE COMMITTEE
ON SENATE FILE 2449

To the President of the Senate and the Speaker of the House of Representatives:

We, the undersigned members of the conference committee appointed to resolve the differences between the Senate and the House of Representatives on Senate File 2449, a bill for An Act changing the computation of the inflation factors for the tax brackets and standard deduction under the individual income tax; changing the computation of taxable income of certain subchapter S corporations and their shareholders; increasing inheritance tax exemptions for certain relatives; increasing the amount of the appropriations for homestead credit, military service credit, and low-income credit and reimbursement claims; providing income tax credits for investing in a qualified venture capital company; establishing incentives for family farm animal feeding operations and making an appropriation; adjusting the funding for the family farm and agricultural land tax credits; establishing a study of the property tax system as the sole or major source of local funding and of alternate sources of funding for school, city, and county services, the repayment of bonds or other debt obligations, and capital improvements; and providing effective and applicability date provisions, respectfully make the following report:

1. That the Senate recedes from its amendment, H-5736.
2. That the House recedes from its amendment, S-5574.
3. That Senate File 2449, as amended, passed, and

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reprinted by the Senate, is amended as follows:

1. By striking everything after the enacting clause and inserting the following:

"DIVISION I
INDEXATION

Section 1. Section 422.4, subsection 1, paragraph a, Code 1995, is amended to read as follows:

a. "Annual inflation factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual inflation factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit-price deflator-for-the-gross-national-product~~ gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add ~~one-half~~ all of that percent change to one hundred percent. The annual inflation factor and the cumulative inflation factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual inflation factor shall not be less than one hundred percent.

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

Sec. 3. Section 422.4, subsection 2, paragraph a, Code 1995, is amended to read as follows:

a. "Annual standard deduction factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the

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calendar year for which the factor is determined. In determining the annual standard deduction factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit-price-deflator-for-the-gross-national-product~~ gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add ~~one-half~~ all of that percent change to one hundred percent. The annual standard deduction factor and the cumulative standard deduction factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual standard deduction factor shall not be less than one hundred percent.

Sec. 4. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies to the computation of the annual inflation factor and annual standard deduction factor for calendar years beginning on or after January 1, 1996. The department of revenue and finance shall adjust the annual inflation factor and annual standard deduction factor previously computed for the 1996 calendar year to reflect the change made in the computation of those factors in this Act.

DIVISION II

SCHOOL PROPERTY TAX

Sec. 5. Section 257.1, subsection 2, unnumbered paragraph 2, Code Supplement 1995, is amended to read as follows:

For the budget year commencing July 1, ~~1991~~ 1996, and for each succeeding budget year the regular program foundation base per pupil is ~~eighty-three~~ eighty-seven and five-tenths percent of the regular program state cost per pupil, except that the regular program foundation base per pupil for the portion of weighted enrollment that is additional enrollment because of special education is seventy-nine percent of the regular program state cost per pupil. For the budget year commencing July 1, 1991, and for each succeeding budget year

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the special education support services foundation base is seventy-nine percent of the special education support services state cost per pupil. The combined foundation base is the sum of the regular program foundation base and the special education support services foundation base.

Sec. 6. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies to the computation of school foundation aid payable during school budget years beginning on or after July 1, 1996.

DIVISION III

HOMESTEAD, MILITARY, AND ELDERLY OR DISABLED

TAX CREDIT AND REIMBURSEMENT CLAIMS

Sec. 7. Section 8.59, Code 1995, is amended to read as follows:

8.59 APPROPRIATIONS FREEZE.

Notwithstanding contrary provisions of the Code, the amounts appropriated under the applicable sections of the Code for fiscal years commencing on or after July 1, 1993, are limited to those amounts expended under those sections for the fiscal year commencing July 1, 1992. If an applicable section appropriates moneys to be distributed to different recipients and the operation of this section reduces the total amount to be distributed under the applicable section, the moneys shall be prorated among the recipients. As used in this section, "applicable sections" means the following sections: 53.50, 229.35, 230.8, 230.11, 405A.8, 411.20, ~~425.17~~-~~425.39~~-~~426A.17~~, 663.44, and 822.5.

Sec. 8. Section 425.1, subsection 1, Code 1995, is amended to read as follows:

1. A homestead credit fund is created. There is appropriated annually from the general fund of the state to the department of revenue and finance to be credited to the homestead credit fund, ~~an amount sufficient~~ the sum of one hundred fourteen million four hundred thousand dollars to implement this chapter.

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The director of revenue and finance shall issue warrants on the homestead credit fund payable to the county treasurers of the several counties of the state under this chapter.

Sec. 9. Section 425.39, Code 1995, is amended to read as follows:

1. The extraordinary property tax credit and reimbursement fund is created. There is appropriated annually from the general fund of the state to the department of revenue and finance to be credited to the extraordinary property tax credit and reimbursement fund, from funds not otherwise appropriated, an amount sufficient the sum of twelve million five hundred thousand dollars to implement this division.

2. If the amount appropriated under subsection 1, ~~as limited by section 8:59,~~ plus any supplemental appropriation made for purposes of this section for a fiscal year is insufficient to pay all claims in full, the director shall pay, in full, all claims to be paid during the fiscal year for reimbursement of rent constituting property taxes paid or if moneys are insufficient to pay all such claims on a pro rata basis. If the amount of claims for credit for property taxes due to be paid during the fiscal year exceed the amount remaining after payment to renters, the director of revenue and finance shall prorate the payments to the counties for the property tax credit. In order for the director to carry out the requirements of this subsection, notwithstanding any provision to the contrary in this division, claims for reimbursement for rent constituting property taxes paid filed before May 1 of the fiscal year shall be eligible to be paid in full during the fiscal year and those claims filed on or after May 1 of the fiscal year shall be eligible to be paid during the following fiscal year and the director is not required to make payments to counties for the property tax credit before June 15 of the fiscal year.

Sec. 10. Section 426A.1, Code 1995, is amended to read as follows:

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426A.1 APPROPRIATION.

There is appropriated from the general fund of the state the amounts-necessary sum of two million eight hundred thousand dollars to fund the credits provided under this chapter.

Sec. 11. It is the intent of the general assembly to provide property tax relief to the citizens of Iowa by fully funding the homestead credit, the elderly and disabled credit, and military tax exemption. The general assembly directs local officials to join the general assembly in providing property tax relief to the fullest extent possible by reducing property tax levies in proportion to increased reimbursement from the state. However, the general assembly recognizes that the most efficient method of achieving property tax relief is through a locally determined strategy based upon the fiscal needs of the local government. This section applies to the 1996-1997 fiscal year only.

Sec. 12. This division of this Act takes effect July 1, 1996, and applies to homestead, military service, and elderly or disabled tax credit and rent reimbursement claims payable in fiscal years beginning on or after July 1, 1996.

DIVISION IV

SUBCHAPTER S CORPORATIONS

Sec. 13. Section 422.4, Code 1995, is amended by adding the following new subsection:

NEW SUBSECTION. 17A. The term "value-added corporation" means a corporation that purchases, receives, or holds personal property of any description and which adds to its value by a process of manufacturing, construction, processing, or combining of different materials, and shall specifically include the economic activity identified in divisions C and D of the standard industrial classification codes appearing in 13 C.F.R. ch. 1(1-1-94 edition), with a view to selling the finished product for gain or profit. A corporation engaged in more than one business activity is a value-added corporation

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if more than fifty percent of its gross receipts, figured on a three-year annual average, or such shorter period as the corporation shall have been in existence, are from the processes previously identified.

Sec. 14. Section 422.5, subsection 1, paragraph j, Code 1995, is amended to read as follows:

j. (1) The tax imposed upon the taxable income of a nonresident shall be computed by reducing the amount determined pursuant to paragraphs "a" through "i" by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the nonresident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "a", is the numerator and the nonresident's total net income computed under section 422.7 is the denominator. This provision also applies to individuals who are residents of Iowa for less than the entire tax year.

(2) The tax imposed upon the taxable income of a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state may be computed by reducing the amount determined pursuant to paragraphs "a" through "i" by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the resident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "b", is the numerator and the resident's total net income computed under section 422.7 is the denominator. This paragraph also applies to individuals who are residents of Iowa for less than the entire tax year.

(a) In order for a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, to claim the benefits

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of apportionment of income of the value-added corporation, the taxpayer must completely fill out the return, determine the taxpayer's income tax liability without the benefit of apportionment of the value-added corporation's income, and pay the amount of tax owed. The taxpayer shall recompute the taxpayer's income tax liability, by applying the provisions of this subparagraph on a special return. This special return shall be filed under rules of the director and constitutes a claim for refund of the difference between the amount of tax the taxpayer paid as determined without the provisions of this subparagraph and the amount of tax determined with the provisions of this subparagraph.

(b) This subparagraph shall not affect the amount of the taxpayer's checkoff to the Iowa election campaign fund under section 56.18, the checkoff for the fish and game fund in section 107.16, the credits from tax provided in sections 422.10, 422.11A, and 422.12 and the allocation of these credits between spouses if the taxpayers filed separate returns or separately on combined returns.

(c) For any tax year, the aggregate amount of refund claims that shall be paid pursuant to this subparagraph shall not exceed five million dollars. If, for a tax year, the aggregate amount of refund claims filed pursuant to this subparagraph exceeds five million dollars, each claim for refund shall be paid on a pro rata basis so that the aggregate amount of refund claims does not exceed five million dollars. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled under this subparagraph is the pro rata amount that was paid and the taxpayer is not entitled to a refund of the unpaid portion and is not entitled to carry that amount forward or backward to another tax year. Taxpayers shall not use refunds as estimated payments for the succeeding tax year. Taxpayers whose tax years begin on January 1 must file their refund claims by October 31 of the calendar year following the end of

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their tax year to be eligible for refunds. Taxpayers whose tax years begin on a date other than January 1 must file their refund claims by the end of the tenth month following the end of their tax years to be eligible. The department shall determine on February 1 of the second succeeding calendar year if the total amount of claims for refund exceeds five million dollars for the tax year. Notwithstanding any other provision, interest shall not be due on any refund claims that are paid by the last day of February of the second succeeding calendar year. If the claim is not payable on February 1 of the second succeeding calendar year, because the taxpayer is a fiscal year filer, then the amount of the claim allowed shall be in the same ratio as the refund claims available on February 1 of the second succeeding calendar year. These claims shall be funded by moneys appropriated for payment of individual income tax refunds.

Sec. 15. Section 422.5, subsection 1, paragraph k, unnumbered paragraph 4, Code 1995, is amended to read as follows:

In the case of a resident, including a resident estate or trust, the state's apportioned share of the state alternative minimum tax is one hundred percent of the state alternative minimum tax computed in this subsection. In the case of a resident or part year resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, a nonresident, including a nonresident estate or trust, or an individual, estate, or trust that is domiciled in the state for less than the entire tax year, the state's apportioned share of the state alternative minimum tax is the amount of tax computed under this subsection, reduced by the applicable credits in sections 422.10 through 422.12 and this result multiplied by a fraction with a numerator of the sum of state net income allocated to Iowa as determined in section 422.8, subsection

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2, paragraph "a" or "b" as applicable, plus tax preference items, adjustments, and losses under subparagraph (1) attributable to Iowa and with a denominator of the sum of total net income computed under section 422.7 plus all tax preference items, adjustments, and losses under subparagraph (1). In computing this fraction, those items excludable under subparagraph (1) shall not be used in computing the tax preference items. Married taxpayers electing to file separate returns or separately on a combined return must allocate the minimum tax computed in this subsection in the proportion that each spouse's respective preference items, adjustments, and losses under subparagraph (1) bear to the combined preference items, adjustments, and losses under subparagraph (1) of both spouses.

Sec. 16. Section 422.8, subsection 2, Code 1995, is amended to read as follows:

2. a. Nonresident's net income allocated to Iowa is the net income, or portion thereof of net income, which is derived from a business, trade, profession, or occupation carried on within this state or income from any property, trust, estate, or other source within Iowa. However, income derived from a business, trade, profession, or occupation carried on within this state and income from any property, trust, estate, or other source within Iowa shall not include distributions from pensions, including defined benefit or defined contribution plans, annuities, individual retirement accounts, and deferred compensation plans or any earnings attributable thereto so long as the distribution is directly related to an individual's documented retirement and received while the individual is a nonresident of this state. If a business, trade, profession, or occupation is carried on partly within and partly without the state, only the portion of the net income which is fairly and equitably attributable to that part of the business, trade, profession, or occupation carried on within the state is allocated to Iowa for purposes of section

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422.5, subsection 1, paragraph "j", and section 422.13 and income from any property, trust, estate, or other source partly within and partly without the state is allocated to Iowa in the same manner, except that annuities, interest on bank deposits and interest-bearing obligations, and dividends are allocated to Iowa only to the extent to which they are derived from a business, trade, profession, or occupation carried on within the state.

b. A resident's income allocable to Iowa is the income determined under section 422.7 reduced by items of income and expenses from a subchapter S corporation which is a value-added corporation that carries on business within and without the state when those items of income and expenses pass directly to the shareholders under provisions of the Internal Revenue Code. These items of income and expenses are increased by the greater of the following:

(1) The net income or loss of the corporation which is fairly and equitably attributable to this state under section 422.33, subsections 2 and 3.

(2) Any cash or the value of property distributions which are made only to the extent that they are paid from income upon which Iowa income tax has not been paid, as determined under rules of the director, reduced by fifty percent of the amount of any of these distributions that are made to enable the shareholder to pay federal income tax on items of income, loss, and expenses from the corporation.

Sec. 17. Section 422.8, Code 1995, is amended by adding the following new subsection:

NEW SUBSECTION. 6. If the resident or part-year resident is a shareholder of a value-added corporation which has in effect an election under subchapter S of the Internal Revenue Code, subsections 1 and 3 do not apply to any income taxes paid to another state or foreign country on the income from the value-added corporation which has in effect an election under subchapter S of the Internal Revenue Code.

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Sec. 18. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1996, for tax years beginning on or after that date.

DIVISION V

LIVESTOCK PRODUCTION TAX CREDIT

Sec. 19. NEW SECTION. 422.120 LIVESTOCK PRODUCTION TAX CREDIT ALLOWED.

1. a. There is allowed a state tax credit for livestock production operations located in the state. The amount of the credit equals ten cents for each corn equivalent consumed by the livestock in the production operation as specified under this section. The credit shall be refunded as provided in section 422.121.

b. The credit shall be available to an individual or corporate taxpayer who owns livestock, if all of the following apply:

(1) The total net worth of the taxpayer during the taxpayer's tax year is less than one million dollars.

(2) The taxpayer receives, or accrues in the case of an accrual-basis taxpayer, more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year. Gross income from farming or ranching is the amount reported as gross income on schedule F, or the equivalent schedule, of the taxpayer's income tax return, the total gains from sales of breeding livestock, and, if applicable, the taxpayer's distributive share of income from farming or ranching from a partnership, limited liability company, subchapter S corporation, or an estate or trust. To determine whether a taxpayer receives more than one-half of gross income from farming or ranching, the taxpayer's amount of gross income from farming or ranching shall be divided by the taxpayer's total gross income as defined in section 61 of the federal Internal Revenue Code.

2. The amount of the credit per operation is determined by

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adding together for each head of livestock in the operation the product of ten cents times the number of corn equivalents consumed by that head of livestock. The amount of livestock production credit per operation per tax year shall not exceed three thousand dollars and the amount of livestock production credit per taxpayer per tax year shall not exceed three thousand dollars.

The maximum amount of corn equivalents for a head of livestock in a production operation is the following:

| a. Hog operations: | Corn equivalents: |
|---------------------------|-------------------|
| (1) Farrow to finish | 13.0 |
| (2) Farrow to feeder pig | 2.6 |
| (3) Finishing feeder pigs | 10.4 |
| b. Poultry operations: | |
| (1) Layers | 0.88 |
| (2) Turkeys | 1.5 |
| (3) Broilers | 0.15 |
| c. Beef operations: | |
| (1) Cow-calf | 111.5 |
| (2) Stocker | 41.5 |
| (3) Feedlot | 75.0 |
| (4) Dairy | 350.0 |
| d. Sheep operations: | |
| (1) Ewe flock | 20.5 |
| (2) Feedlot | 4.1 |

3. If the livestock operation is carried on partly within and partly without the state, the portion of the operation attributable to this state shall be determined pursuant to rules adopted by the department. The department may adjust the allocation upon request of the taxpayer in order to reflect the actual livestock operation carried on within this state.

4. An individual may claim the livestock production tax credit allowed a partnership, limited liability company, subchapter S corporation, or estate or trust electing to have

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the income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earning of the partnership, limited liability company, subchapter S corporation, or estate or trust.

5. A fraudulent claim for a credit refund under this division shall cause the forfeiture of any right or interest to a tax credit refund in subsequent tax years under this division.

Sec. 20. NEW SECTION. 422.121 APPROPRIATION.

Beginning with the fiscal year beginning July 1, 1997, there is appropriated annually from the general fund of the state two million dollars to refund the credits allowed under this division.

Sec. 21. NEW SECTION. 422.122 REFUND OF LIVESTOCK PRODUCTION CREDIT CLAIMS.

1. Each tax year the total amount of livestock production credit refund claims that shall be paid pursuant to section 422.120 shall not exceed the amount appropriated by the general assembly for that purpose. If the total dollar amount of the refund claims exceeds that amount, each claim shall be paid an amount equal to that amount divided by the total number of claims, not to exceed the amount of the taxpayer's claim. Remaining funds shall be prorated among those claims not paid in full in the proportion that each such claim bears to the total amount of such claims not paid in full.

2. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled is the amount computed in subsection 1, and paid to the taxpayer, and the taxpayer is not entitled to any unpaid portion of a claim and is not entitled to carry forward or backward to another tax year any unpaid portion of a claim. A taxpayer shall not use a refund as an estimated payment for the succeeding tax year.

3. A taxpayer must file a claim for refund within ten

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months from the last day of the taxpayer's tax year. An extension for filing shall not be allowed. The department shall determine by February 28 of the calendar year following the calendar year in which the claims were filed if the total amount of claims for refund exceeds the amount appropriated for that purpose by the general assembly for the tax year. If the claim is not payable on February 28 because the taxpayer is a fiscal year filer, the claim shall be considered as a claim filed for the following tax year.

4. A claim for refund shall be made on claim forms to be made available by the department. In order for a taxpayer to have a valid refund claim, the taxpayer must supply legible copies of documents the director deems necessary to verify the amount of the refund.

Sec. 22. FISCAL YEAR 1997-1998 APPROPRIATION.

Notwithstanding the livestock production operations described in section 422.120, for the tax year beginning on or after January 1, 1996, the appropriation in section 422.121 shall only be used to satisfy claims for cow-calf production.

Sec. 23. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 1996.

DIVISION VI

SCHOOL STUDY GOALS

Sec. 24. It is the intent of the general assembly to support the study of the department of education required in 1996 Iowa Acts, House File 2477, if enacted, with the specified goals of increasing the capacity of the whole school to meet the needs of all children; increasing support available to at-risk students; and ensuring predictable and equitable special education funding at both the state and local levels; and with the additional goal of achieving parity between the percentage of regular program state cost per pupil and the percentage for that portion of weighted enrollment that is additional enrollment because of special education which constitute the regular program foundation base and the

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percentage of special education support services state cost per pupil which constitutes the special education support services foundation base.

DIVISION VII

FUNDING CREDITS AND EXEMPTIONS

Sec. 25. NEW SECTION. 25B.7 FUNDING PROPERTY TAX CREDITS AND EXEMPTIONS.

1. Beginning with property taxes due and payable in the fiscal year beginning July 1, 1997, the cost of providing a property tax credit or property tax exemption which is enacted by the general assembly on or after January 1, 1997, shall be fully funded by the state. If a state appropriation made to fund a credit or exemption which is enacted on or after January 1, 1997, is not sufficient to fully fund the credit or exemption, the political subdivision shall be required to extend to the taxpayer only that portion of the credit or exemption funded by the state appropriation. The department of revenue and finance shall determine the portion of the credit or exemption which will be funded by the state appropriation.

2. The requirement for fully funding and the consequences of not fully funding credits and exemptions under subsection 1 also apply to all of the following:

a. Homestead tax credit pursuant to sections 425.1 through 425.15.

b. Elderly, low-income, and disabled property tax credits pursuant to sections 425.16 through 425.40.

c. Military service property tax credits and exemptions pursuant to chapter 426A and sections 427.3 through 427.7.

Sec. 26. This division of this Act takes effect July 1, 1996."

2. Title page, by striking lines 1 through 17 and inserting the following: "An Act changing the computation of the inflation factors for the tax brackets and standard deduction under the individual income tax; changing the

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computation of taxable income of shareholders of certain subchapter S corporations; increasing the amount of the appropriations for homestead credit, military service credit, and low-income elderly and disabled credit and reimbursement claims; providing tax credits for livestock production; increasing the regular program foundation base level under the school aid program; requiring full funding for certain property tax credits; and providing effective and applicability date provisions."

ON THE PART OF THE SENATE:

WILLIAM D. PALMER, Chairperson
WAYNE BENNETT
MARY LOU FREEMAN
EMIL J. HUSAK
TOM VILSACK

ON THE PART OF THE HOUSE:

ROGER HALVORSON, Chairperson
BILL BERNAU
JOHN GREIG
CHUCK LARSON
RICHARD MYERS

CCS-2449.2 FILED APRIL 17, 1996

*Adopted
5-1-96
(P. 1595)*

Palmer
Connolly
Vilsack
Drake
Bennett

SSB 2343

Ways & Means

SENATE FILE ^{OCE} (SF) HF 2449
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON PALMER)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act changing the computation of the inflation factors for the
2 tax brackets and standard deduction under the individual
3 income tax; changing the computation of taxable income of
4 certain subchapter S corporations and their shareholders;
5 increasing inheritance tax exemptions for certain relatives;
6 increasing the amount of the appropriations for homestead
7 credit, military service credit, and low-income credit and
8 reimbursement claims; providing income tax credits for
9 investing in a qualified venture capital company; establishing
10 incentives for family farm animal feeding operations and
11 making an appropriation; and providing effective and
12 applicability date provisions.

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

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17
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19
20
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23

Succeeded By
SF/HF

DIVISION I

INCOME TAX INDEXATION

1
2
3 Section 1. Section 422.4, subsection 1, paragraph a, Code
4 1995, is amended to read as follows:

5 a. "Annual inflation factor" means an index, expressed as
6 a percentage, determined by the department by October 15 of
7 the calendar year preceding the calendar year for which the
8 factor is determined, which reflects the purchasing power of
9 the dollar as a result of inflation during the fiscal year
10 ending in the calendar year preceding the calendar year for
11 which the factor is determined. In determining the annual
12 inflation factor, the department shall use the annual percent
13 change, but not less than zero percent, in the ~~implicit-price~~
14 ~~deflator-for-the-gross-national-product~~ gross domestic product
15 price deflator computed for the second quarter of the calendar
16 year by the bureau of economic analysis of the United States
17 department of commerce and shall add ~~one-half~~ all of that
18 percent change to one hundred percent. The annual inflation
19 factor and the cumulative inflation factor shall each be
20 expressed as a percentage rounded to the nearest one-tenth of
21 one percent. The annual inflation factor shall not be less
22 than one hundred percent.

23 Sec. 2. Section 422.4, subsection 2, paragraph a, Code
24 1995, is amended to read as follows:

25 a. "Annual standard deduction factor" means an index,
26 expressed as a percentage, determined by the department by
27 October 15 of the calendar year preceding the calendar year
28 for which the factor is determined, which reflects the
29 purchasing power of the dollar as a result of inflation during
30 the fiscal year ending in the calendar year preceding the
31 calendar year for which the factor is determined. In
32 determining the annual standard deduction factor, the
33 department shall use the annual percent change, but not less
34 than zero percent, in the ~~implicit-price-deflator-for-the~~
35 gross-national-product gross domestic product price deflator

1 computed for the second quarter of the calendar year by the
2 bureau of economic analysis of the United States department of
3 commerce and shall add ~~one-half~~ all of that percent change to
4 one hundred percent. The annual standard deduction factor and
5 the cumulative standard deduction factor shall each be
6 expressed as a percentage rounded to the nearest one-tenth of
7 one percent. The annual standard deduction factor shall not
8 be less than one hundred percent.

9 Sec. 3. This division of this Act, being deemed of
10 immediate importance, takes effect upon enactment and applies
11 to the computation of the annual inflation factor and annual
12 standard deduction factor for calendar years beginning on or
13 after January 1, 1996. The department of revenue and finance
14 shall adjust the annual inflation factor and annual standard
15 deduction factor previously computed for the 1996 calendar
16 year to reflect the change made in the computation of those
17 factors in this Act.

18 DIVISION II

19 INHERITANCE TAX

20 Sec. 4. Section 450.9, subsections 2 and 3, Code 1995, are
21 amended to read as follows:

22 2. Each son and daughter, including legally adopted sons
23 and daughters, or stepsons and stepdaughters, or biological
24 sons and daughters entitled to inherit under the law of this
25 state, fifty two hundred thousand dollars.

26 3. Father or mother ~~fifteen~~ fifty thousand dollars.

27 Sec. 5. Section 450.9, Code 1995, is amended by adding the
28 following new subsection after subsection 3:

29 NEW SUBSECTION. 3A. Each grandchild, fifty thousand
30 dollars.

31 Sec. 6. This division of this Act takes effect July 1
32 following enactment of the division and applies to the estates
33 of decedents dying on or after that date.

34 DIVISION III

35 HOMESTEAD, MILITARY, AND LOW-INCOME

1 TAX CREDIT AND REIMBURSEMENT

2 Sec. 7. Section 8.59, Code 1995, is amended to read as
3 follows:

4 8.59 APPROPRIATIONS FREEZE.

5 Notwithstanding contrary provisions of the Code, the
6 amounts appropriated under the applicable sections of the Code
7 for fiscal years commencing on or after July 1, 1993, are
8 limited to those amounts expended under those sections for the
9 fiscal year commencing July 1, 1992. If an applicable section
10 appropriates moneys to be distributed to different recipients
11 and the operation of this section reduces the total amount to
12 be distributed under the applicable section, the moneys shall
13 be prorated among the recipients. As used in this section,
14 "applicable sections" means the following sections: 53.50,
15 229.35, 230.8, 230.11, 405A.8, 411.20, ~~425.17-425.397-426A.17~~
16 663.44, and 822.5.

17 Sec. 8. Section 425.1, subsection 1, Code 1995, is amended
18 to read as follows:

19 1. A homestead credit fund is created. There is
20 appropriated annually from the general fund of the state to
21 the department of revenue and finance to be credited to the
22 homestead credit fund, ~~an amount sufficient~~ the sum of one
23 hundred fourteen million four hundred thousand dollars to
24 implement this chapter.

25 The director of revenue and finance shall issue warrants on
26 the homestead credit fund payable to the county treasurers of
27 the several counties of the state under this chapter.

28 Sec. 9. Section 425.17, subsection 2, paragraph b, Code
29 1995, is amended to read as follows:

30 b. A person filing a claim for ~~credit or~~ reimbursement
31 under this division who has attained the age of twenty-three
32 years on or before December 31 of the base year or was a head
33 of household on December 31 of the base year, as defined in
34 the Internal Revenue Code, but has not attained the age or
35 disability status described in paragraph "a", and was

1 domiciled in this state during the entire base year, and is
2 domiciled in this state at the time the claim is filed or at
3 the time of the person's death in the case of a claim filed by
4 the executor or administrator of the claimant's estate, and
5 was not claimed as a dependent on any other person's tax
6 return for the base year.

7 Sec. 10. Section 425.17, subsection 2, unnumbered
8 paragraph 2, Code 1995, is amended to read as follows:

9 "Claimant" under paragraph "a" or "b" includes a vendee in
10 possession under a contract for deed and may include one or
11 more joint tenants or tenants in common. In the case of a
12 claim for rent constituting property taxes paid, the claimant
13 shall have rented the property during any part of the base
14 year. If a homestead is occupied by two or more persons, and
15 more than one person is able to qualify as a claimant, the
16 persons may determine among them who will be the claimant. If
17 they are unable to agree, the matter shall be referred to the
18 director of revenue and finance not later than June 1 of each
19 year and the director's decision is final.

20 Sec. 11. Section 425.23, subsection 1, paragraph b, Code
21 1995, is amended by striking the paragraph and inserting in
22 lieu thereof the following:

23 b. The reimbursement for a claimant described in section
24 425.17, subsection 2, paragraph "b", shall be determined as
25 follows:

| 26 | Percent of rent constituting |
|-----------------------------|------------------------------|
| 27 If the household | property taxes paid allowed |
| 28 income is: | as a reimbursement: |
| 29 \$ 0 - 9,999.99 | 50 |
| 30 10,000 - 13,999.99 | 42 |
| 31 14,000 - 17,999.99 | 35 |
| 32 18,000 - 20,999.99 | 25 |
| 33 21,000 - 23,999.99 | 17 |
| 34 24,000 - 26,999.99 | 12 |

35 Sec. 12. Section 425.23, subsection 3, paragraph a, Code

1 1995, is amended to read as follows:

2 a. A person who is eligible to file a claim for credit for
3 property taxes due and who has a household income of six
4 thousand dollars or less and who has an unpaid special
5 assessment levied against the homestead may file a claim with
6 the county treasurer that the claimant had a household income
7 of six thousand dollars or less and that an unpaid special
8 assessment is presently levied against the homestead. The
9 department shall provide to the respective treasurers the
10 forms necessary for the administration of this subsection.
11 The claim shall be filed not later than September 30 of each
12 year. Upon the filing of the claim, interest for late payment
13 shall not accrue against the amount of the unpaid special
14 assessment due and payable. The claim filed by the claimant
15 constitutes a claim for credit of an amount equal to the
16 actual amount due upon the unpaid special assessment, plus
17 interest, payable during the fiscal year for which the claim
18 is filed against the homestead of the claimant. However,
19 ~~where the claimant is an individual described in section~~
20 ~~425-177 subsection 2, paragraph "b", and the tentative credit~~
21 ~~is determined according to the schedule in section 425-23,~~
22 ~~subsection 1, paragraph "b", subparagraph (2), the claim filed~~
23 ~~constitutes a claim for credit of an amount equal to one-half~~
24 ~~of the actual amount due and payable during the fiscal year.~~
25 The department of revenue and finance shall, upon the filing
26 of the claim with the department by the treasurer, pay that
27 amount of the unpaid special assessment during the current
28 fiscal year to the treasurer. The treasurer shall submit the
29 claims to the director of revenue and finance not later than
30 October 15 of each year. The director of revenue and finance
31 shall certify the amount of reimbursement due each county for
32 unpaid special assessment credits allowed under this
33 subsection. The amount of reimbursement due each county shall
34 be paid by the director of revenue and finance on October 20
35 of each year, drawn upon warrants payable to the respective

1 treasurer. There is appropriated annually from the general
2 fund of the state to the department of revenue and finance an
3 amount sufficient to carry out the provisions of this
4 subsection. The treasurer shall credit any moneys received
5 from the department against the amount of the unpaid special
6 assessment due and payable on the homestead of the claimant.

7 Sec. 13. Section 425.24, Code 1995, is amended to read as
8 follows:

9 425.24 MAXIMUM PROPERTY TAX FOR PURPOSE OF CREDIT OR
10 REIMBURSEMENT.

11 In any case in which property taxes due or rent
12 constituting property taxes paid for any household exceeds one
13 thousand dollars or six hundred dollars in the case of a
14 claimant described in section 425.17, subsection 2, paragraph
15 "b", the amount of property taxes due or rent constituting
16 property taxes paid shall be deemed to have been one thousand
17 dollars or six hundred dollars in the case of a claimant
18 described in section 425.17, subsection 2, paragraph "b", for
19 purposes of this division.

20 Sec. 14. Section 425.39, subsection 1, Code 1995, is
21 amended to read as follows:

22 1. The extraordinary property tax credit and reimbursement
23 fund is created. There is appropriated annually from the
24 general fund of the state to the department of revenue and
25 finance to be credited to the extraordinary property tax
26 credit and reimbursement fund, from funds not otherwise
27 appropriated, an-amount-sufficient the sum of twelve million
28 five hundred thousand dollars to implement this division.

29 Sec. 15. Section 425.40, Code 1995, is amended to read as
30 follows:

31 425.40 LOW-INCOME FUND CREATED.

32 1. A low-income tax-credit-and rent reimbursement fund is
33 created. There is appropriated annually from the general fund
34 of the state to the low-income rent reimbursement fund the sum
35 of thirteen million five hundred thousand dollars to fund rent

1 reimbursements under this division.

2 2. If the amount appropriated under subsection 1 plus any
3 supplemental appropriation made for purposes of this section
4 for a fiscal year is insufficient to pay all claims in full,
5 the director shall pay ~~7-in-full,-all-claims-to-be-paid-during~~
6 ~~the-fiscal-year-for-reimbursement-of-rent-constituting~~
7 ~~property-taxes-paid-or-if-moneys-are-insufficient-to-pay~~ all
8 such claims on a pro rata basis. ~~if-the-amount-of-claims-for~~
9 ~~credit-for-property-taxes-due-to-be-paid-during-the-fiscal~~
10 ~~year-exceed-the-amount-remaining-after-payment-to-renters,-the~~
11 ~~director-of-revenue-and-finance-shall-prorate-the-payments-to~~
12 ~~the-counties-for-the-property-tax-credit.~~ In order for the
13 director to carry out the requirements of this subsection,
14 notwithstanding any provision to the contrary in this
15 division, claims for reimbursement for rent constituting
16 property taxes paid filed before May 1 of the fiscal year
17 shall be eligible to be paid in full during the fiscal year
18 and those claims filed on or after May 1 of the fiscal year
19 shall be eligible to be paid during the following fiscal year
20 ~~and-the-director-is-not-required-to-make-payments-to-counties~~
21 ~~for-the-property-tax-credit-before-June-15-of-the-fiscal-year.~~

22 Sec. 16. Section 426A.1, Code 1995, is amended to read as
23 follows:

24 426A.1 APPROPRIATION.

25 There is appropriated from the general fund of the state
26 the amounts-necessary sum of two million eight hundred
27 thousand dollars to fund the credits provided under this
28 chapter.

29 Sec. 17. This division of this Act takes effect July 1,
30 1996, and applies to homestead, military service, and low-
31 income tax credit and rent reimbursement claims payable in
32 fiscal years beginning on or after July 1, 1996.

33

DIVISION IV

34

SUBCHAPTER S CORPORATIONS

35 Sec. 18. Section 422.4, Code 1995, is amended by adding

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1 the following new subsection:

2 NEW SUBSECTION. 15A. "Subchapter S corporation" or "S
3 corporation" means a corporation for which a valid election
4 under section 1362(a) of the Internal Revenue Code is in
5 effect.

6 Sec. 19. Section 422.5, subsection 1, paragraph j, Code
7 1995, is amended to read as follows:

8 j. (1) The tax imposed upon the taxable income of a
9 nonresident shall be computed by reducing the amount
10 determined pursuant to paragraphs "a" through "i" by the
11 amounts of nonrefundable credits under this division and by
12 multiplying this resulting amount by a fraction of which the
13 nonresident's net income allocated to Iowa, as determined in
14 section 422.8, subsection 2, paragraph "a", is the numerator
15 and the nonresident's total net income computed under section
16 422.7 is the denominator. This provision also applies to
17 individuals who are residents of Iowa for less than the entire
18 tax year.

19 (2) The tax imposed upon the taxable income of a resident
20 shareholder in a subchapter S corporation which makes an
21 election pursuant to section 422.36, subsection 5, paragraph
22 "b", to be taxed as a regular corporation, shall be computed
23 by reducing the amount determined pursuant to paragraphs "a"
24 through "i" by the amounts of nonrefundable credits under this
25 division and by multiplying this resulting amount by a
26 fraction of which the resident's net income allocated to Iowa,
27 as determined in section 422.8, subsection 2, paragraph "b",
28 is the numerator and the resident's total net income as
29 computed under section 422.7 is the denominator. This
30 provision also applies to individuals who are residents of
31 Iowa for less than the entire tax year.

32 (a) In the case of a resident or part-year resident
33 shareholder in a subchapter S corporation which makes an
34 election under section 422.36, subsection 5, paragraph "b", to
35 be taxed as a regular corporation, a taxpayer must completely

1 fill out the return, determine the taxpayer's income tax as if
2 the taxpayer is not a resident shareholder in a corporation
3 which makes an election pursuant to section 422.36, subsection
4 5, paragraph "b", and pay the amount of tax which is owed.
5 The taxpayer shall then recompute the taxpayer's income tax
6 liability pursuant to this subparagraph on a special return.
7 This special return shall be filed with the regular return and
8 constitutes a claim for refund of the difference between the
9 amount of tax the taxpayer paid on the regular return and the
10 amount of tax determined on the special return. However, if
11 the amount of tax determined on the special return exceeds the
12 amount of tax paid on the regular return, the taxpayer shall
13 pay the additional amount of tax which is owned on the special
14 return.

15 (b) For any tax year, the aggregate amount of refund
16 claims that shall be paid pursuant to this subparagraph in
17 excess of revenue gains shall not exceed three million five
18 hundred thousand dollars. If, for a tax year, the aggregate
19 amount of refund claims filed pursuant to this subparagraph in
20 excess of revenue gains exceeds three million five hundred
21 thousand dollars, each claim for refund shall be paid on a pro
22 rata basis so that the aggregate amount of refund claims in
23 excess of revenue gains does not exceed three million five
24 hundred thousand dollars. For purposes of the calculation of
25 the three million five hundred thousand dollar limitation
26 provided by this subparagraph subdivision, the department
27 shall take into account all revenue gains as well as revenue
28 losses resulting from the application of the following
29 provisions, including, without limitation, revenue gains
30 arising when the tax calculated under this subparagraph is
31 greater, revenue gains resulting from the denial of tax
32 credits under section 422.8, subsection 6, revenue gains
33 resulting from the taxation of additional income under section
34 422.7, subsection 35, and revenue gains resulting from the
35 imposition of corporate income taxes on corporations making

1 the election specified in section 422.36, subsection 5,
2 paragraph "b". In the case where refund claims are not
3 allowed in full, the amount of the refund to which the
4 taxpayer is entitled under this subparagraph is the pro rata
5 amount that was paid and the taxpayer is not entitled to a
6 refund of the unpaid portion and is not entitled to carry that
7 amount forward or backward to another tax year. Taxpayers
8 shall not use refunds as estimated payments for the succeeding
9 tax year. The department shall determine by July 1 of the tax
10 year following the tax year for which the refund claim is
11 filed if the aggregate amount of refund claims in excess of
12 revenue gains exceeds three million five hundred thousand
13 dollars for the tax year. Notwithstanding any provision,
14 interest shall not be due on any refund claims that are paid
15 by September 1 of the tax year following the tax year for
16 which the refund claim is filed. For taxpayers that are
17 fiscal year filers, the amount of the refund claim allowed
18 shall be in the same ratio as the refund claims allowed for
19 the tax year in which the taxpayer's fiscal year began.

20 Sec. 20. Section 422.5, subsection 1, paragraph k,
21 subparagraph (3), unnumbered paragraph 3, Code 1995, is
22 amended to read as follows:

23 In the case of a resident, including a resident estate or
24 trust, the state's apportioned share of the state alternative
25 minimum tax is one hundred percent of the state alternative
26 minimum tax computed in this subsection. In the case of a
27 resident or part-year resident shareholder in a subchapter S
28 corporation which makes an election under section 422.36,
29 subsection 5, paragraph "b" to be taxed as a regular
30 corporation and a nonresident, including a nonresident estate
31 or trust, or an individual, estate, or trust that is domiciled
32 in the state for less than the entire tax year, the state's
33 apportioned share of the state alternative minimum tax is the
34 amount of tax computed under this subsection, reduced by the
35 applicable credits in sections 422.10 through 422.12 and this

S.F. _____ H.F. _____

1 result multiplied by a fraction with a numerator of the sum of
2 state net income allocated to Iowa as determined in section
3 422.8, subsection 2, paragraph "a" or "b", as applicable, plus
4 tax preference items, adjustments, and losses under
5 subparagraph (1) attributable to Iowa and with a denominator
6 of the sum of total net income computed under section 422.7
7 plus all tax preference items, adjustments, and losses under
8 subparagraph (1). In computing this fraction, those items
9 excludable under subparagraph (1) shall not be used in
10 computing the tax preference items. Married taxpayers
11 electing to file separate returns or separately on a combined
12 return must allocate the minimum tax computed in this
13 subsection in the proportion that each spouse's respective
14 preference items, adjustments, and losses under subparagraph
15 (1) bear to the combined preference items, adjustments, and
16 losses under subparagraph (1) of both spouses.

17 Sec. 21. Section 422.7, Code Supplement 1995, is amended
18 by adding the following new subsection:

19 NEW SUBSECTION. 35. In determining gain or loss from the
20 sale or other disposition of stock of a subchapter S
21 corporation which makes an election pursuant to section
22 422.36, subsection 5, paragraph "b" to be taxed as a regular
23 corporation, the basis of a taxpayer in that stock shall be
24 adjusted for Iowa income tax purposes under rules of the
25 director to reflect any adjustment in Iowa income taxes paid
26 by the taxpayer pursuant to section 422.5, subsection 1,
27 paragraph "j", subparagraph (2).

28 Sec. 22. Section 422.8, subsection 2, Code 1995, is
29 amended to read as follows:

30 2. a. Nonresident's net income allocated to Iowa is the
31 net income, or portion thereof of the net income, which is
32 derived from a business, trade, profession, or occupation
33 carried on within this state or income from any property,
34 trust, estate, or other source within Iowa. However, income
35 derived from a business, trade, profession, or occupation

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

22 b. A resident's income allocated to Iowa is the income
 23 determined under section 422.7 reduced by items of income,
 24 loss, and expenses from a subchapter S corporation which makes
 25 an election pursuant to section 422.36, subsection 5,
 26 paragraph "b", to be taxed as a regular corporation, which
 27 pass directly to the shareholders under provisions of the
 28 Internal Revenue Code, with the following adjustments:

29 (1) Add cash or value of property distributions made to
 30 the extent paid from income upon which Iowa income tax has not
 31 been paid as determined under rules of the director.

32 (2) Subtract the amount of distributions made in
 33 subparagraph (1) that were, under rules of the director,
 34 distributed to the shareholder to enable the shareholder to
 35 pay federal income tax on items of income, loss, and expenses

1 from a subchapter S corporation which makes an election
2 pursuant to section 422.36, subsection 5, paragraph "b", to be
3 taxed as a regular corporation, which pass directly to the
4 shareholders under provisions of the Internal Revenue Code.

5 Sec. 23. Section 422.8, Code 1995, is amended by adding
6 the following new subsection:

7 NEW SUBSECTION. 6. If the resident or part-year resident
8 is a shareholder of a subchapter S corporation which makes an
9 election pursuant to section 422.36, subsection 5, paragraph
10 "b", to be taxed as a regular corporation, subsections 1 and 3
11 do not apply to any income taxes paid to another state or
12 foreign country on the income from the subchapter S
13 corporation.

14 Sec. 24. Section 422.32, subsection 4, Code Supplement
15 1995, is amended to read as follows:

16 4. "Corporation" includes joint stock companies, and
17 associations organized for pecuniary profit, and publicly
18 traded partnerships and limited liability companies taxed as
19 corporations under the Internal Revenue Code and any
20 subchapter S corporation which has in effect an election under
21 section 422.36, subsection 5, paragraph "b", to be taxed as a
22 regular corporation.

23 Sec. 25. Section 422.32, Code Supplement 1995, is amended
24 by adding the following new subsection:

25 NEW SUBSECTION. 11. The term "value-added corporation"
26 means a corporation that purchases, receives, or holds
27 personal property of any description and which adds to its
28 value by a process of manufacturing, construction, processing,
29 or combining of different materials, and shall specifically
30 include the economic activity identified in divisions C and D
31 of the standard industrial classification codes appearing in
32 13 C.F.R. ch. 1(1-1-94 edition), with a view to selling the
33 finished product for gain or profit. A corporation engaged in
34 more than one business activity is a value-added corporation
35 if more than fifty percent of its gross receipts, figured on a

1 three-year annual average, or such shorter period as the
2 corporation shall have been in existence, are from the
3 processes previously identified.

4 Sec. 26. Section 422.35, unnumbered paragraph 1, Code
5 Supplement 1995, is amended to read as follows:

6 The term "net income" means the taxable income before the
7 net operating loss deduction, as properly computed for federal
8 income tax purposes under the Internal Revenue Code, or in the
9 case of subchapter S corporations that make an election
10 pursuant to section 422.36, subsection 5, paragraph "b", "net
11 income" means the sum of all items of distributive shares of
12 income, loss, and expenses of the corporation as determined
13 under rules of the director, with the following adjustments:

14 Sec. 27. Section 422.36, subsection 5, Code 1995, is
15 amended to read as follows:

16 5. a. Where Unless an election is made under paragraph
17 "b" to be taxed under this division, where a corporation is
18 not subject to income tax and the stockholders of such the
19 corporation are taxed on the corporation's income under the
20 provisions of the Internal Revenue Code, the same tax
21 treatment shall apply to such applies to the corporation and
22 such the stockholders for Iowa income tax purposes.

23 b. A subchapter S corporation which is a value-added
24 corporation which does business both within and without of the
25 state may elect to be taxed as a regular corporation under
26 this division. The election shall be made not later than the
27 due date for filing its return for the first taxable year for
28 which the election is to be effective, including any
29 extensions beyond that date, on a form provided by the
30 director and signed by the shareholders holding more than one-
31 half of the shares of stock of the corporation on the last day
32 of the first taxable year for which the election is to be
33 effective. The election shall be effective for that taxable
34 year and for subsequent taxable years until revoked.

35 c. The corporation may revoke its election under paragraph

1 "b" by a revocation made not later than the due date for
2 filing its return for the taxable year for which the
3 revocation is to be effective, including any extensions beyond
4 that date, on a form provided by the director and signed by
5 shareholders holding more than one-half of the shares of stock
6 of the corporation on the last day of the first taxable year
7 for which the revocation is to be effective. However, a
8 corporation that has made an election under paragraph "b"
9 shall not be eligible to make an election under this paragraph
10 for revocation of the election under paragraph "b" for any
11 taxable year before its fourth taxable year following the
12 first taxable year for which the election under paragraph "b"
13 was effective, unless the director consents to the revocation.

14 Sec. 28. This division of this Act, being deemed of
15 immediate importance, takes effect upon enactment and applies
16 retroactively to January 1, 1996, for tax years of individuals
17 beginning on or after that date and for tax years of
18 corporations ending on or after that date.

19 DIVISION V

20 QUALIFIED VENTURE CAPITAL COMPANY

21 Sec. 29. NEW SECTION. 15E.175 DEFINITIONS.

22 As used in this section and sections 15E.176 and 15E.177:

23 1. "Iowa business" means a business or industry,
24 incorporated or unincorporated, which meets all the following
25 criteria:

26 a. Has or will have, within thirty days after a loan or
27 investment is made by a qualified venture capital company, at
28 least fifty percent of its employees or assets located in Iowa
29 and agrees to maintain at least fifty percent of its employees
30 or assets in Iowa following investment in the business by a
31 qualified venture capital company.

32 b. A business which is unable to raise equity capital or
33 obtain financing from conventional sources in order to remain
34 viable or to commence or expand its ability to provide goods
35 or services.

1 2. "Qualified venture capital company" means a
2 corporation, limited liability company, or a general or
3 limited partnership with its principal place of business
4 located within this state, which meets all of the following
5 requirements:

6 a. Has an initial private capitalization of not less than
7 twenty million dollars.

8 b. Is organized by the Iowa business investment
9 corporation, organized under division XV of this chapter, to
10 directly or indirectly through its subsidiaries or affiliates
11 invest in debt and equity securities of Iowa businesses.

12 c. Seeks approval from the federal small business
13 administration to establish a small business investment
14 company that is incorporated in Iowa and maintains its
15 principal place of business in this state the purpose of which
16 includes increasing the availability of funds for investment
17 in and loans to Iowa businesses.

18 d. Will provide or arrange for managerial and other
19 advice, assistance, and support for Iowa businesses.

20 e. Does not invest funds under this division for the
21 expansion of operations of an Iowa business in another state.

22 3. "Taxpayer" means an entity subject to tax under chapter
23 422, division III, chapter 422, division V, or chapter 432.

24 4. "Tax year" means for entities subject to the state
25 corporate income tax or the state franchise tax under chapter
26 422, division III or V, respectively, the tax year as defined
27 for those divisions or means for insurance companies subject
28 to the gross premiums tax under chapter 432, the calendar year
29 for which the premiums are taxed.

30 Sec. 30. NEW SECTION. 15E.176 TAX CREDITS.

31 1. For tax years beginning on or after January 1, 1997,
32 there is allowed a credit against that tax imposed under the
33 corporate income tax in chapter 422, division III, the
34 franchise tax in chapter 422, division V, or the gross
35 premiums tax in chapter 432, for investments made by the

1 taxpayer in a qualified venture capital company whose purpose
2 includes establishing or expanding Iowa business.

3 2. The amount of credit allowed under subsection 1,
4 subject to subsection 4, is computed as follows:

5 a. The amount of the qualified venture capital company's
6 investment in Iowa businesses is divided by the amount of new
7 cash invested in the qualified venture capital company.

8 b. The resulting percentage, which shall not exceed fifty
9 percent, is multiplied by the amount of the taxpayer's
10 investment in the qualified venture capital company.

11 c. The amount of the credit is equal to ten percent of the
12 product determined in paragraph "b".

13 d. The qualified venture capital company shall compute as
14 of the end of the qualified venture capital company's tax year
15 the amounts under paragraph "c" for each tax year the
16 qualified venture capital company is entitled to the credit.

17 3. The qualified venture capital company is allowed the
18 credit as computed each year in subsection 2 for up to ten
19 consecutive years beginning with the first year for which the
20 credit is taken.

21 If the amount of the credit exceeds the qualified venture
22 capital company's tax liability for the tax year, the excess
23 may be credited to the tax liability for the following five
24 tax years or until depleted, whichever is the earlier, and is
25 in addition to any other credit allowed under this section.

26 4. Notwithstanding the amount of credit computed in
27 subsection 2, the total amount of credits for all qualified
28 venture capital companies that shall be allowed under
29 subsection 1 for any fiscal year of the qualified venture
30 capital company shall not exceed one million two hundred fifty
31 thousand dollars and for all fiscal years of the qualified
32 venture capital company shall not exceed twelve million five
33 hundred thousand dollars. In determining if the credit
34 allowed has exceeded the fiscal year limit, credits carried
35 over from a previous tax year are not counted.

1 5. The credit provided for in subsection 2, to the extent
2 not previously utilized, shall be freely transferable to and
3 by subsequent transferees for a period of ten years from the
4 date the credit is first available to the qualified venture
5 capital company.

6 Sec. 31. NEW SECTION. 15E.177 COORDINATION OF RESOURCES.

7 If a qualified venture capital company is organized by the
8 Iowa business investment corporation on or before December 31,
9 1997, within ninety days following its organization, the
10 qualified venture capital company shall develop and submit a
11 written proposal to the shareholders of each business
12 development finance corporation organized pursuant to division
13 XIII of this chapter, calling for the investment of all the
14 assets of each business development finance corporation in
15 securities of the qualified venture capital company. A notice
16 of a special meeting of the shareholders of the business
17 development finance corporation and the written proposal made
18 to the business development finance corporation by the
19 qualified venture capital company shall be delivered to the
20 shareholders of each business development finance corporation
21 entitled to vote at the special shareholders meeting not less
22 than ten nor more than sixty days before the meeting date
23 given by the qualified venture capital company. Action on the
24 written proposal by the board of directors of the business
25 development finance corporation or any other person shall not
26 be required to call the special meeting or authorize voting on
27 the written proposal by the shareholders of the business
28 development finance corporation. If at the special meeting of
29 shareholders of the business development finance corporation
30 or any recesses thereof, a majority of the shareholders
31 present or represented at the special meeting approve the
32 investment proposed by the qualified venture capital company,
33 the business development finance corporation shall immediately
34 make such an investment of all of its assets. The investment
35 by a business development finance corporation of all of its

1 assets in the qualified venture capital corporation shall not
2 be considered a sale of assets other than in the usual and
3 regular course of business and division XIII of the Iowa
4 business development finance Act shall not apply to the
5 transaction. The qualified venture capital company may make
6 additional proposals as often as it desires to the
7 shareholders of each business development finance corporation
8 that did not approve the initial investment proposal. Except
9 for the requirement that a written proposal be presented to
10 the shareholders within ninety days of the organization of the
11 qualified venture capital company, the provisions of this
12 section shall apply to all additional proposals.

13 Sec. 32. Section 422.33, Code Supplement 1995, is amended
14 by adding the following new subsection:

15 NEW SUBSECTION. 9. There is allowed as a credit against
16 the tax determined in subsection 1 for a tax year an amount
17 equal to the qualified venture capital credit as provided in
18 section 15E.176. Notwithstanding any other provision, the
19 credit allowed for in this subsection shall be applied prior
20 to all other credits allowed the taxpayer. The taxpayer shall
21 not receive for the same investment a credit under subsection
22 8 and this subsection.

23 Sec. 33. Section 422.60, Code Supplement 1995, is amended
24 by adding the following new subsection:

25 NEW SUBSECTION. 4. There is allowed as a credit against
26 the tax determined in this division for a tax year an amount
27 equal to the qualified venture capital credit as provided in
28 section 15E.176. Notwithstanding any other provision, the
29 credit allowed for in this subsection shall be applied prior
30 to all other credits allowed the taxpayer. The allocation of
31 revenues to a city or county under section 422.65 shall be
32 determined as if the credit under this subsection had not been
33 taken.

34 Sec. 34. Section 432.1, Code 1995, is amended by adding
35 the following new subsection:

1 NEW SUBSECTION. 5. There is allowed as a credit against
2 the tax determined in subsection 1 or 2 for a tax year an
3 amount equal to the qualified venture capital credit as
4 provided in section 15E.176. Notwithstanding any other
5 provision, the credit allowed for in this subsection shall be
6 applied prior to all other credits allowed the taxpayer.

7 Sec. 35. 1992 Iowa Acts, chapter 1244, section 1,
8 subsection 2, paragraph e, unnumbered paragraph 1, as amended
9 by 1993 Iowa Acts, chapter 180, section 46, as amended by 1994
10 Iowa Acts, chapter 1201, section 29, is amended to read as
11 follows:

12 For transfer to the treasurer of state for the purpose of
13 facilitating the organization and private capitalization of
14 the small business investment company or other entity under
15 sections 15E.169 through 15E.171. If the small business
16 investment company or another entity for which the funds are
17 to be used is not organized ~~within-thirty-six-months-of-the~~
18 ~~effective-date-of-this-Act~~, unused funds shall revert to the
19 general fund of the state, however, if such an entity is
20 organized, the unused funds shall be transferred irrevocably
21 to the qualified venture capital company or other entity for
22 which the funds are to be used:

23 \$ 200,000

24 Sec. 36. APPLICABILITY. This division of this Act applies
25 for tax years of entities subject to the state corporate
26 income tax or franchise tax which begin on or after January 1,
27 1997. This division of this Act applies for calendar years
28 beginning on or after January 1, 1997, for entities subject to
29 the gross premiums tax under chapter 432.

30 DIVISION VI

31 FAMILY FARM FEEDING OPERATIONS

32 Sec. 37. NEW SECTION. 175A.1 SHORT TITLE.

33 This chapter shall be known and may be cited as the "Iowa
34 Family Farm Animal Feeding Operations Preservation Act".

35 Sec. 38. NEW SECTION. 175A.2 PURPOSE.

1 The purpose of this chapter is to address a grave threat to
2 traditional farmers who produce animals in this state and who
3 face capitalization barriers and the consolidation of animal
4 agriculture, which results in fewer individuals engaged in
5 farming. These conditions result in a loss in population,
6 unemployment and a movement of persons from rural communities
7 to urban areas accompanied by added costs to communities for
8 the creation of new public facilities and services. It is
9 therefore necessary to assist small and medium sized family
10 farm animal feeding operations in order to expand such
11 operations and preserve a way of life which has traditionally
12 supported Iowa's economy and communities.

13 Sec. 39. NEW SECTION. 175A.3 DEFINITIONS.

14 1. "Animal feeding operation" means the same as defined in
15 section 455B.161.

16 2. "Animal feeding operation structure" means the same as
17 defined in section 455B.161.

18 3. "Animal weight capacity" means the same as defined in
19 section 455B.161.

20 4. "Authority" means the agricultural development
21 authority established pursuant to section 175.3.

22 5. "Family farm animal feeding operation" or "operation"
23 means an animal feeding operation located on the land where
24 the owner of the operation also engages in farming activities
25 other than animal feeding operation activities, if all of the
26 following criteria are satisfied:

27 a. The total animal weight capacity of all animals other
28 than bovine owned by the person is two hundred thousand pounds
29 or less, and the total animal weight capacity of bovine owned
30 by the person is four hundred thousand pounds or less.

31 b. A person holding an interest in the animal feeding
32 operation owns all animals confined and fed in the animal
33 feeding operation.

34 c. The person who owns the animal feeding operation raises
35 and harvests crops in the same or an adjoining county where

1 the animal feeding operation is located.

2 d. The person who owns the animal feeding operation is one
3 of the following:

4 (1) A natural person.

5 (2) A general partnership composed exclusively of natural
6 persons.

7 e. Each person who holds an interest in the animal feeding
8 operation resides in this state.

9 f. The animal feeding operation is located entirely within
10 the state.

11 6. "Farming" means the same as defined in section 175.2.

12 7. "Lending institution" means a bank, trust company,
13 mortgage company, national banking association, savings and
14 loan association, life insurance company, any state or federal
15 governmental agency or instrumentality, including without
16 limitation the federal land bank or any of its local
17 associations, or any other financial institution or entity
18 authorized to make farm operating loans in this state.

19 8. "Low or moderate net worth" means:

20 a. For an individual, an aggregate net worth of the
21 individual and the individual's spouse and minor children of
22 less than two hundred thousand dollars.

23 b. For any general partnership, an aggregate net worth of
24 all partners, including each partner's net capital in the
25 partnership, and of each partner's spouse and minor children
26 of less than three hundred thousand dollars. However, the
27 aggregate net worth of each partner and that partner's spouse
28 and minor children shall not exceed two hundred thousand
29 dollars.

30 9. "Net worth" means a person's total assets minus total
31 liabilities as determined in accordance with generally
32 accepted accounting principles with appropriate exceptions and
33 exemptions reasonably related to an equitable determination of
34 a person's net worth. Assets shall be valued at fair market
35 value.

1 10. "Note" means a bond anticipation note or other
2 obligation or evidence of indebtedness issued by the authority
3 pursuant to this chapter.

4 11. "Secured loan" means a financial obligation secured by
5 a chattel mortgage, security agreement, or other instrument
6 creating a lien on an interest in depreciable agricultural
7 property.

8 Sec. 40. NEW SECTION. 175A.4 ASSISTANCE PROGRAMS.

9 1. The authority shall administer programs under this
10 section to assist family farm animal feeding operations. The
11 department of revenue and finance shall assist the authority
12 in administering this section.

13 2. In order to assist a family farm animal feeding
14 operation in financing the operation, including by assisting
15 in whole or in part the acquisition of animals, or the
16 purchase of agricultural land, the purchase of agricultural
17 improvements or depreciable agricultural property, the
18 construction of buildings, facilities, or animal feeding
19 operation structures, related to the operation, the authority
20 shall do all of the following:

21 a. Cooperate with any other state agency or the federal
22 government, including supplementing assistance provided by
23 another state agency and the federal government.

24 b. Administer other programs provided under chapter 175,
25 including supplementing assistance provided by other programs.

26 c. Provide certification necessary to allow owners of
27 operations to claim an income tax credit as provided in
28 section 175A.5, and a property tax exemption pursuant to
29 section 427.1.

30 d. Administer the following programs:

31 (1) A loan guarantee program to provide for guaranteeing
32 of all or part of a loan made to the operation.

33 (2) An interest buy-down program, in which the authority
34 contracts with a participating lending institution to reduce
35 the interest rate charged on a loan to the operation. The

1 authority shall determine the amount that the rate is reduced
 2 by considering the lending institution's customary loan rate
 3 for the type of loan sought as certified to the authority by
 4 the lending institution. As part of the contract, in order to
 5 reimburse the lending institution for the reduction of the
 6 interest rate on the loan, the authority may agree to grant
 7 the lending institution any amount foregone by reducing the
 8 interest rate on that portion of the loan which is three
 9 hundred thousand dollars or less. However, the amount
 10 reimbursed shall not be more than fifty percent of the amount
 11 of interest foregone by the lending institution on the loan.

12 3. The amount of assistance awarded to a family farm
 13 animal feeding operation shall be based on the extent to which
 14 the following apply:

- 15 a. The operation has a low or moderate net worth.
- 16 b. The owner of the family farm animal feeding operation
 17 utilizes a computer system using an application designed to
 18 monitor herd performance, as approved by Iowa state
 19 university.
- 20 c. The person managing the operation is actively engaged
 21 in improving the management of the operation, which may
 22 include participating in the livestock producers assistance
 23 program provided pursuant to section 266.39D, or employing a
 24 person qualified by the American registry of professional
 25 animal science, who is actively engaged in the profession of
 26 consulting with livestock producers for the purpose of
 27 increasing production or enhancing performance of livestock.

28 4. In order to participate in a program administered under
 29 this section, all of the following must apply:

- 30 a. The family farm animal feeding operation or any person
 31 holding an interest in the operation is not classified as a
 32 habitual violator as provided in section 455B.191.
- 33 b. The assistance provided by the authority under this
 34 section is not used to construct, repair, or expand an
 35 anaerobic lagoon or earthen manure storage basin as defined in

1 section 455B.161.

2 5. a. The authority shall adopt rules to administer this
3 section, including the enforcement of terms of a contract to
4 which the authority is a party. The authority may require a
5 lending institution or a family farm animal feeding operation
6 to submit evidence satisfactory to the authority that the
7 lending institution or operation has complied with the
8 authority's requirements.

9 b. The authority may inspect any records of a lending
10 institution or a family farm animal feeding operation which
11 are pertinent to the administration of a program. In order to
12 assure compliance with this section and rules adopted pursuant
13 to this section, the authority may establish by rule
14 appropriate enforcement provisions, including but not limited
15 to, the payment of civil penalties by a lending institution or
16 operation. The authority may also enforce the provisions of
17 this section or terms of the contract by bringing an action in
18 any court of competent jurisdiction to recover damages.

19 6. A lending institution and the borrower participating in
20 a program under this section shall each pay to the authority
21 one-half of an origination fee which shall not exceed one
22 percent of the loan. In addition, the lending institution
23 shall pay a fee equal to twenty-five basis points on the loan
24 to the authority on an annual basis.

25 Sec. 41. NEW SECTION. 175A.5 INCOME TAX CREDIT.

26 1. A family farm animal feeding operation which receives
27 at least ten thousand dollars in assistance under section
28 175A.4 as certified by the authority under section 175A.4
29 shall be entitled to receive a tax credit equal to ten percent
30 of all new investments made in the operation not later than
31 the tax year following the tax year in which the operation
32 receives assistance under section 175A.4.

33 2. For purposes of this section, "new investment" means
34 the capitalized cost of all real and personal property related
35 to the family farm animal feeding operation, including

1 animals; buildings and animal feeding operation structures
2 qualifying under this section; equipment; and other
3 improvements to the operation, purchased or otherwise acquired
4 or relocated to the operation. "New investment" does not
5 include intangible property, or furniture and furnishings.
6 For the purposes of this section, capitalized cost of property
7 shall be determined in accordance with accounting methods used
8 by the taxpayer in determining the taxpayer's income for state
9 tax purposes.

10 3. Any credit in excess of the tax liability for the tax
11 year may be applied to the tax liability for the following ten
12 years or until depleted, whichever occurs first.

13 4. The department of revenue and finance shall adopt any
14 rules necessary to administer this section.

15 Sec. 42. NEW SECTION. 175A.6 FAMILY FARM ANIMAL FEEDING
16 OPERATION FUND.

17 1. A family farm animal feeding operation fund is created
18 within the state treasury under the control of the authority.
19 The fund shall consist of any moneys appropriated by the
20 general assembly, fees paid to the authority, and any other
21 moneys available to and obtained or accepted by the authority
22 from the federal government or private sources for placement
23 in the fund. Moneys shall be deposited in the fund as
24 provided in section 175A.7. Not more than one hundred fifty
25 thousand dollars shall be available annually from the fund for
26 administration of section 175A.4. The assets of the fund
27 shall be used by the authority only for carrying out the
28 purposes of section 175A.1 and section 427.1, subsection 28.

29 2. In administering the fund the authority may do all of
30 the following:

31 a. Contract, sue and be sued, and adopt administrative
32 rules necessary to administer this section. However, the
33 authority shall not in any manner directly or indirectly
34 pledge the credit of the state.

35 b. Authorize payment from the fund for costs, commissions,

1 attorney fees, and other reasonable expenses, including
2 expenses related to carrying out duties necessary for
3 administering programs provided for under section 175A.4,
4 including for guaranteeing loans, and for the recovery of loan
5 moneys guaranteed or the management of property acquired in
6 connection with such loans.

7 3. Payments of interest, recaptures of awards, or
8 repayments of moneys provided in assistance under section
9 175A.4 shall be deposited into the fund. Section 8.33 does
10 not apply to any moneys in the fund until June 30, 2001.
11 Notwithstanding section 12C.7, interest or earnings on
12 investments or time deposits of the moneys in the fund shall
13 be credited to the fund.

14 4. The fund is subject to an annual audit as provided by
15 the authority. Moneys in the fund, which may be subject to
16 warrants written by the director of revenue and finance, shall
17 be drawn upon the written requisition of the authority's
18 executive director.

19 Sec. 43. NEW SECTION. 175A.7 STANDING APPROPRIATION.

20 For each fiscal year of the fiscal period beginning July 1,
21 1996, and ending June 30, 2002, there is appropriated twelve
22 million dollars from the general fund of the state to the
23 family farm animal feeding operation fund created in section
24 175A.6.

25 Sec. 44. Section 427.1, Code Supplement 1995, is amended
26 by adding the following new subsection:

27 NEW SUBSECTION. 28. The property of a family farm animal
28 feeding operation as defined in section 175A.3, which receives
29 at least ten thousand dollars in assistance awarded and
30 certified by the agricultural development authority under
31 section 175A.4 shall be exempt from taxation for a period of
32 five years, to the extent provided in this subsection.

33 a. The exemption shall apply as follows:

34 (1) It begins on January 1 of the year following the year
35 in which the family farm animal feeding operation receives

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1 assistance under section 175A.4.

2 (2) It is limited to the market value, as defined in
3 section 441.21, of the property of the family farm animal
4 feeding operation. If the property of the family farm animal
5 feeding operation is assessed with other property as a unit,
6 the exemption shall be limited to the net market value of the
7 property of the family farm animal feeding operation
8 determined as of the assessment date.

9 b. In order to receive the exemption, the owner of the
10 operation must file for the exemption with the assessing
11 authority not later than the first of February of the first
12 year for which the exemption applies, on forms provided by the
13 agricultural development authority. The application shall
14 provide a description of the family farm animal feeding
15 operation subject to the exemption. The application shall be
16 accompanied by a certificate of assistance provided by the
17 agricultural development authority.

18 c. The assessing authority shall retain a permanent file
19 of current exemptions filed in the assessing authority's
20 office. Not later than July 6 of each year, the assessing
21 authority shall remit a statement certifying the total amount
22 of exemptions allowed under this subsection. After receiving
23 the certification, the agricultural development authority
24 shall draw warrants on the family farm animal feeding
25 operation fund created in section 175A.6 which shall be
26 payable to the assessing authority in the amount certified by
27 the assessing authority, and shall mail the warrants to the
28 assessing authorities on August 15 of each year. However, if
29 the family farm animal feeding operation fund does not have
30 sufficient moneys available to pay in full the total of the
31 amounts certified to the agricultural development authority,
32 the authority shall prorate unobligated and unencumbered
33 moneys in the fund to the assessing authorities.

34 Sec. 45, FUTURE REPEAL.

35 1. Sections 175A.5 and 175A.7 are repealed.

1 2. Section 427.1, subsection 28, is amended by striking
2 the subsection.

3 3. This section takes effect on July 1, 2002.

4 4. Notwithstanding this section, an income tax credit
5 granted pursuant to section 175A.5, or a property tax
6 exemption provided under section 427.1, subsection 28, shall
7 continue in effect and shall be administered and enforced
8 until its expiration as provided in this division of this Act.

9 EXPLANATION

10 Division I - Under present law the tax brackets and
11 standard deduction for the state individual income tax are
12 adjusted by an inflation factor that uses 50 percent of the
13 change in the implicit price deflator for the gross national
14 product. The division increases this to 100 percent of the
15 change in the gross domestic product price deflator. The
16 division changes the reference from the gross national product
17 price deflator to the gross domestic product price deflator
18 since the former no longer exists.

19 This division of the bill applies retroactively to tax
20 years beginning on or after January 1, 1996.

21 Division II - Increases the inheritance tax exemption for
22 children from \$50,000 to \$200,000 for stepchildren from
23 \$15,000 to \$200,000, and for parents and grandchildren from
24 \$15,000 to \$50,000.

25 This division is effective July 1 following enactment for
26 estates of decedents dying on or after that date.

27 Division III - Fully funds the amounts of the homestead tax
28 credit, military service tax credit, and the elderly or
29 disabled tax credit and rent reimbursement for the 1996-1997
30 fiscal year and these amounts are appropriated annually from
31 then on. Under present law these credits were funded only to
32 the extent funded in the 1992-1993 fiscal year. The division
33 also appropriates \$13.5 million for the 1996-1997 fiscal year
34 for the low-income nonelderly or nondisabled property tax
35 relief for renters. Present law included homeowners but no

1 funding was available. The appropriation is continued for
2 subsequent fiscal years.

3 The division takes effect July 1, 1996, and applies to
4 homestead, military service, and low-income homestead tax
5 credit and rent reimbursement claims payable in fiscal years
6 beginning on or after July 1, 1996.

7 Division IV - Involves the taxation of subchapter S
8 corporations and their shareholders. A subchapter S
9 corporation is a corporation meeting certain federal tax
10 criteria that elects to have its income taxed directly to its
11 shareholders and thus exempting itself from corporate
12 taxation. Present state law allows this for state tax
13 purposes. This division allows certain subchapter S
14 corporation shareholders to elect to be taxed as regular
15 corporations for state tax purposes. These corporations must
16 do business both within and without the state and must be in
17 the business of adding value to products. By making the
18 election it is probable that the resident shareholders will
19 have a reduction in their state individual income tax.
20 However, the total reduction in resident shareholders'
21 individual income tax is limited to \$3.5 million. To ensure
22 that the total reduction does not exceed \$3.5 million special
23 calculations need to be made. First the tax is computed as if
24 the resident shareholder had not made the election and the tax
25 liability must be paid. Second, another special return is
26 filled out to compute the tax based upon the fact of the
27 election. This return is filed with the regular return and
28 the reduction in tax, if any, is claimed as a refund. Any
29 increase in tax must be paid. The department of revenue and
30 finance shall determine if the claims for refund total more
31 than \$3.5 million by July 1 of the following tax year and if
32 the claims are in excess of \$3.5 million each claimant
33 receives a pro rata amount. The amount of claim not refunded
34 is disregarded and may not be carried forward or backward.
35 The division takes effect upon enactment and applies

1 retroactively to January 1, 1996, for tax years of individuals
2 beginning on or after that date and for tax years of
3 corporations ending on or after that date.

4 Division V - Allows a corporation, financial institution,
5 or insurance company to take a corporate, franchise, or
6 insurance premiums tax credit for its investment in a
7 qualified venture capital company. The qualified venture
8 capital company is an entity formed by the existing Iowa
9 business investment corporation with an initial capitalization
10 of at least \$20 million. The purpose of the qualified venture
11 capital company is to invest primarily in debt and equity
12 securities of Iowa businesses. The total amount of the tax
13 credit for all taxpayers is computed each year based on the
14 total amount invested in Iowa businesses by the qualified
15 venture capital company as of the end of its fiscal year. The
16 amount of the annual tax credit for a single taxpayer is equal
17 to up to 10 percent of the taxpayer's investment in the
18 qualified venture capital company multiplied by the percentage
19 the investments in Iowa businesses represent of the total new
20 cash invested in the qualified venture capital company. The
21 tax credit is allowed for 10 consecutive years following the
22 first year the tax credit is taken by the taxpayer. The
23 division limits to \$1.25 million the total amount of tax
24 credits that can be taken by all taxpayers in any fiscal year
25 of the qualified venture capital company. The division also
26 limits to \$12.5 million the total amount of tax credits that
27 can be taken by all taxpayers in all fiscal years of the
28 qualified venture capital company. The division applies to
29 tax years beginning on or after January 1, 1997.

30 Division VI - Creates a new chapter entitled the "Iowa
31 Family Farm Animal Feeding Preservation Act". The division
32 provides that the purpose of the chapter is to assist
33 traditional farmers who produce animals in this state and who
34 face capitalization barriers and the consolidation of animal
35 agriculture. A family farm animal feeding operation is

1 defined to mean a person who is either a natural person or a
 2 general partnership who owns an animal feeding operation
 3 located on the land where the person engages in other farming
 4 activities. Additional requirements relate to the operation's
 5 animal weight capacity, the extent to which the owner of the
 6 operation is a party to a contract feeding arrangement,
 7 whether the owner of the operation raises and harvests crops
 8 on land where the animal feeding operation is located, and the
 9 manner in which the operation is organized.

10 The division provides for the administration of programs by
 11 the agricultural development authority to assist family farm
 12 animal feeding operations, including a loan guarantee program,
 13 and an interest buy-down program. The authority must award
 14 assistance based on whether an operation has a low or moderate
 15 net worth, utilizes an approved computer system for monitoring
 16 herd performance, and benefits from programs designed to
 17 improve the management of the operation. In order to
 18 participate in a program, the operation cannot be owned by a
 19 person classified as a habitual violator under section
 20 455B.191. The division prohibits assistance being used to
 21 construct, repair, or expand an anaerobic lagoon or earthen
 22 manure storage basin. The division requires the authority to
 23 adopt rules to administer the programs, including the payment
 24 of civil penalties by persons violating agreements with the
 25 authority.

26 The division establishes a family farm animal feeding
 27 operation fund in order to support the assistance programs.
 28 Not more than \$150,000 available from the fund may be used
 29 annually by the authority for administration. The division
 30 provides a standing appropriation of \$12 million for each year
 31 until June 30, 2002.

32 The division provides for an income tax credit for an
 33 operation which receives assistance from the authority. The
 34 tax credit is equal to a maximum of 10 percent of all new
 35 investment made by the operation not later than one year

1 following the year in which the operation received assistance.
2 The new investment includes the capitalized cost of all real
3 and personal property related to the operation. Any credit in
4 excess of the tax liability for the tax year may be applied to
5 the tax liability for the following 10 years or until
6 depleted, whichever occurs first.

7 Finally, the division provides that a family farm animal
8 feeding operation which qualifies for assistance is exempt
9 from property taxes for five years. The division provides
10 procedures for filing for the exemption with the assessing
11 authority on a form provided by the department of revenue and
12 finance.

13 The division provides that the income tax credit and
14 appropriation provisions of the division are repealed on July
15 1, 2002.

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OFFICE OF THE GOVERNOR

STATE CAPITOL
DES MOINES, IOWA 50319

515 281-5211

TERRY E. BRANSTAD
GOVERNOR

May 29, 1996

RECEIVED

MAY 31 1996

LEGISLATIVE SERVICE
BUREAU

The Honorable Paul Pate
Secretary of State
State Capitol Building
LOCAL

Dear Mr. Secretary:

I hereby transmit Senate File 2449, an act changing the computation of the inflation factors for the tax brackets and standard deduction under the individual income tax; changing the computation of taxable income of shareholders of certain subchapter s corporations; increasing the amount of the appropriations for homestead credit, military service credit, and low-income elderly and disabled credit and reimbursement claims; providing tax credits for livestock production; increasing the regular program foundation base level under the school aid program; requiring full funding for certain property tax credits; and providing effective and applicability date provisions.

Senate File 2449 represents the second year of a major commitment to reduce the tax burden for Iowa families and businesses. Following up on last year's \$100 million reduction, this bill contains an additional \$90 million of actual tax reductions in fiscal year 1997. The value of these reductions will grow in the future.

I am especially pleased that Iowa's income tax rates will now be fully indexed to inflation, as I had recommended, so that Iowans will not be pushed into higher tax brackets simply as a result of inflationary growth in their incomes. Also, Iowa's competitive position will be enhanced as a result of changes in the taxation of certain Subchapter S corporations. While this action does not totally remove the inequity in the way that Iowa Sub-S corporations are treated, it does begin to remove the disincentive for a Sub-S corporation to locate or expand in Iowa. Tax changes for smaller cow-calf operations will also enhance Iowa's economic growth.

Most significantly, Senate File 2449 will decrease the tax burden for property taxpayers by enhancing the state's share of K-12 school funding. An increase in the program foundation base level from 83 percent to 87.5 percent will result in annual property tax savings of \$85 million.

The Honorable Paul Pate
May 29, 1996
Page 2

Senate File 2449 is, therefore, approved on this date with the following exceptions, which I hereby disapprove.

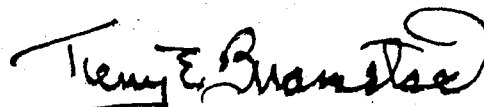
I am unable to approve the items designated as Sections 7, 8, 9, 10, 11 and 12, in their entirety. These items would provide for full funding of certain property tax credits. While property tax payers already enjoy the full benefit of the homestead, military and the elderly or disabled tax credits, the cost to local governments of providing these credits is not currently fully reimbursed by the state. These sections would appropriate a total of \$22.5 million to local governments.

While the concept of full funding for these tax credits has been characterized as property tax relief, in fact there is no assurance of property tax relief. Local budgets for fiscal year 1997 have already been set, meaning none of these funds would be used for tax relief this year. Future tax relief would depend on what each local government chooses to do with the additional funds. I feel there are better alternatives to changing Iowa's property tax system, and instead invite local governments to join in a more comprehensive review aimed at making the overall system simpler, more predictable, and giving local governments greater flexibility in their budgets.

I am unable to approve the item designated as Section 25, in its entirety. This item provides that if the state ever fails to fully fund a property tax credit in the future, the local government may reduce the amount of credit to the taxpayer in an amount equivalent to the shortfall. This action would place the taxpayer at a permanent disadvantage, when the taxpayer, instead, should be protected.

For the above reasons, I respectfully disapprove these items in accordance with Amendment IV of the Amendments of 1968 to the Constitution of the State of Iowa. All other items in Senate File 2449 are hereby approved as of this date.

Sincerely,



Terry E. Branstad
Governor

TEB/ps

cc: Secretary of the Senate
Chief Clerk of the House

SENATE FILE 2449

AN ACT

CHANGING THE COMPUTATION OF THE INFLATION FACTORS FOR THE TAX BRACKETS AND STANDARD DEDUCTION UNDER THE INDIVIDUAL INCOME TAX; CHANGING THE COMPUTATION OF TAXABLE INCOME OF SHAREHOLDERS OF CERTAIN SUBCHAPTER S CORPORATIONS; INCREASING THE AMOUNT OF THE APPROPRIATIONS FOR HOMESTEAD CREDIT, MILITARY SERVICE CREDIT, AND LOW-INCOME ELDERLY AND DISABLED CREDIT AND REIMBURSEMENT CLAIMS; PROVIDING TAX CREDITS FOR LIVESTOCK PRODUCTION; INCREASING THE REGULAR PROGRAM FOUNDATION BASE LEVEL UNDER THE SCHOOL AID PROGRAM; REQUIRING FULL FUNDING FOR CERTAIN PROPERTY TAX CREDITS; AND PROVIDING EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

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

DIVISION I
INDEXATION

Section 1. Section 422.4, subsection 1, paragraph a, Code 1995, is amended to read as follows:

a. "Annual inflation factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual inflation factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit-price deflator-for-the-gross-national-product~~ gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add ~~one-half~~ all of that percent change to one hundred percent. The annual inflation

factor and the cumulative inflation factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual inflation factor shall not be less than one hundred percent.

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

Sec. 3. Section 422.4, subsection 2, paragraph a, Code 1995, is amended to read as follows:

a. "Annual standard deduction factor" means an index, expressed as a percentage, determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual standard deduction factor, the department shall use the annual percent change, but not less than zero percent, in the ~~implicit-price-deflator-for-the-gross-national-product~~ gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add ~~one-half~~ all of that percent change to one hundred percent. The annual standard deduction factor and the cumulative standard deduction factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual standard deduction factor shall not be less than one hundred percent.

Sec. 4. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies to the computation of the annual inflation factor and annual standard deduction factor for calendar years beginning on or after January 1, 1996. The department of revenue and finance shall adjust the annual inflation factor and annual standard deduction factor previously computed for the 1996 calendar year to reflect the change made in the computation of those factors in this Act.

DIVISION II
SCHOOL PROPERTY TAX

Sec. 5. Section 257.1, subsection 2, unnumbered paragraph 2, Code Supplement 1995, is amended to read as follows:

For the budget year commencing July 1, ~~1991~~ 1996, and for each succeeding budget year the regular program foundation base per pupil is ~~eighty-three~~ eighty-seven and five-tenths percent of the regular program state cost per pupil, except that the regular program foundation base per pupil for the portion of weighted enrollment that is additional enrollment because of special education is seventy-nine percent of the regular program state cost per pupil. For the budget year commencing July 1, 1991, and for each succeeding budget year the special education support services foundation base is seventy-nine percent of the special education support services state cost per pupil. The combined foundation base is the sum of the regular program foundation base and the special education support services foundation base.

Sec. 6. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies to the computation of school foundation aid payable during school budget years beginning on or after July 1, 1996.

DIVISION III
HOMESTEAD, MILITARY, AND ELDERLY OR DISABLED
TAX CREDIT AND REIMBURSEMENT CLAIMS

Sec. 7. Section 8.59, Code 1995, is amended to read as follows:

8.59 APPROPRIATIONS FREEZE.

Notwithstanding contrary provisions of the Code, the amounts appropriated under the applicable sections of the Code for fiscal years commencing on or after July 1, 1993, are limited to those amounts expended under those sections for the fiscal year commencing July 1, 1992. If an applicable section appropriates moneys to be distributed to different recipients and the operation of this section reduces the total amount to

be distributed under the applicable section, the moneys shall be prorated among the recipients. As used in this section, "applicable sections" means the following sections: 53.50, 229.35, 230.8, 230.11, 405A.8, 411.20, ~~425.17-425.39-426A.17~~ 663.44, and 822.5.

Sec. 8. Section 425.1, subsection 1, Code 1995, is amended to read as follows:

1. A homestead credit fund is created. There is appropriated annually from the general fund of the state to the department of revenue and finance to be credited to the homestead credit fund, ~~an amount sufficient~~ the sum of one hundred fourteen million four hundred thousand dollars to implement this chapter.

The director of revenue and finance shall issue warrants on the homestead credit fund payable to the county treasurers of the several counties of the state under this chapter.

Sec. 9. Section 425.39, Code 1995, is amended to read as follows:

1. The extraordinary property tax credit and reimbursement fund is created. There is appropriated annually from the general fund of the state to the department of revenue and finance to be credited to the extraordinary property tax credit and reimbursement fund, from funds not otherwise appropriated, ~~an amount sufficient~~ the sum of twelve million five hundred thousand dollars to implement this division.

2. If the amount appropriated under subsection 1 ~~as limited by section 8.59~~, plus any supplemental appropriation made for purposes of this section for a fiscal year is insufficient to pay all claims in full, the director shall pay, in full, all claims to be paid during the fiscal year for reimbursement of rent constituting property taxes paid or if moneys are insufficient to pay all such claims on a pro rata basis. If the amount of claims for credit for property taxes due to be paid during the fiscal year exceed the amount remaining after payment to renters, the director of revenue

and finance shall prorate the payments to the counties for the property tax credit. In order for the director to carry out the requirements of this subsection, notwithstanding any provision to the contrary in this division, claims for reimbursement for rent constituting property taxes paid filed before May 1 of the fiscal year shall be eligible to be paid in full during the fiscal year and those claims filed on or after May 1 of the fiscal year shall be eligible to be paid during the following fiscal year and the director is not required to make payments to counties for the property tax credit before June 15 of the fiscal year.

Sec. 10. Section 426A.1, Code 1995, is amended to read as follows:

426A.1 APPROPRIATION.

There is appropriated from the general fund of the state the amounts-necessary sum of two million eight hundred thousand dollars to fund the credits provided under this chapter.

Veto

Sec. 11. It is the intent of the general assembly to provide property tax relief to the citizens of Iowa by fully funding the homestead credit, the elderly and disabled credit, and military tax exemption. The general assembly directs local officials to join the general assembly in providing property tax relief to the fullest extent possible by reducing property tax levies in proportion to increased reimbursement from the state. However, the general assembly recognizes that the most efficient method of achieving property tax relief is through a locally determined strategy based upon the fiscal needs of the local government. This section applies to the 1996-1997 fiscal year only.

Sec. 12. This division of this Act takes effect July 1, 1996, and applies to homestead, military service, and elderly or disabled tax credit and rent reimbursement claims payable in fiscal years beginning on or after July 1, 1996.

DIVISION IV
SUBCHAPTER S CORPORATIONS

Sec. 13. Section 422.4, Code 1995, is amended by adding the following new subsection:

NEW SUBSECTION. 17A. The term "value-added corporation" means a corporation that purchases, receives, or holds personal property of any description and which adds to its value by a process of manufacturing, construction, processing, or combining of different materials, and shall specifically include the economic activity identified in divisions C and D of the standard industrial classification codes appearing in 13 C.F.R. ch. 1(1-1-94 edition), with a view to selling the finished product for gain or profit. A corporation engaged in more than one business activity is a value-added corporation if more than fifty percent of its gross receipts, figured on a three-year annual average, or such shorter period as the corporation shall have been in existence, are from the processes previously identified.

Sec. 14. Section 422.5, subsection 1, paragraph j, Code 1995, is amended to read as follows:

j. (1) The tax imposed upon the taxable income of a nonresident shall be computed by reducing the amount determined pursuant to paragraphs "a" through "i" by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the nonresident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "a", is the numerator and the nonresident's total net income computed under section 422.7 is the denominator. This provision also applies to individuals who are residents of Iowa for less than the entire tax year.

(2) The tax imposed upon the taxable income of a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state may be computed by reducing the amount determined pursuant to paragraphs "a" through "i" by the

amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the resident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "b", is the numerator and the resident's total net income computed under section 422.7 is the denominator. This paragraph also applies to individuals who are residents of Iowa for less than the entire tax year.

(a) In order for a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, to claim the benefits of apportionment of income of the value-added corporation, the taxpayer must completely fill out the return, determine the taxpayer's income tax liability without the benefit of apportionment of the value-added corporation's income, and pay the amount of tax owed. The taxpayer shall recompute the taxpayer's income tax liability, by applying the provisions of this subparagraph on a special return. This special return shall be filed under rules of the director and constitutes a claim for refund of the difference between the amount of tax the taxpayer paid as determined without the provisions of this subparagraph and the amount of tax determined with the provisions of this subparagraph.

(b) This subparagraph shall not affect the amount of the taxpayer's checkoff to the Iowa election campaign fund under section 56.18, the checkoff for the fish and game fund in section 107.16, the credits from tax provided in sections 422.10, 422.11A, and 422.12 and the allocation of these credits between spouses if the taxpayers filed separate returns or separately on combined returns.

(c) For any tax year, the aggregate amount of refund claims that shall be paid pursuant to this subparagraph shall not exceed five million dollars. If, for a tax year, the aggregate amount of refund claims filed pursuant to this

subparagraph exceeds five million dollars, each claim for refund shall be paid on a pro rata basis so that the aggregate amount of refund claims does not exceed five million dollars. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled under this subparagraph is the pro rata amount that was paid and the taxpayer is not entitled to a refund of the unpaid portion and is not entitled to carry that amount forward or backward to another tax year. Taxpayers shall not use refunds as estimated payments for the succeeding tax year. Taxpayers whose tax years begin on January 1 must file their refund claims by October 31 of the calendar year following the end of their tax year to be eligible for refunds. Taxpayers whose tax years begin on a date other than January 1 must file their refund claims by the end of the tenth month following the end of their tax years to be eligible. The department shall determine on February 1 of the second succeeding calendar year if the total amount of claims for refund exceeds five million dollars for the tax year. Notwithstanding any other provision, interest shall not be due on any refund claims that are paid by the last day of February of the second succeeding calendar year. If the claim is not payable on February 1 of the second succeeding calendar year, because the taxpayer is a fiscal year filer, then the amount of the claim allowed shall be in the same ratio as the refund claims available on February 1 of the second succeeding calendar year. These claims shall be funded by moneys appropriated for payment of individual income tax refunds.

Sec. 15. Section 422.5, subsection 1, paragraph k, unnumbered paragraph 4, Code 1995, is amended to read as follows:

In the case of a resident, including a resident estate or trust, the state's apportioned share of the state alternative minimum tax is one hundred percent of the state alternative minimum tax computed in this subsection. In the case of a

resident or part year resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, a nonresident, including a nonresident estate or trust, or an individual, estate, or trust that is domiciled in the state for less than the entire tax year, the state's apportioned share of the state alternative minimum tax is the amount of tax computed under this subsection, reduced by the applicable credits in sections 422.10 through 422.12 and this result multiplied by a fraction with a numerator of the sum of state net income allocated to Iowa as determined in section 422.8, subsection 2, paragraph "a" or "b" as applicable, plus tax preference items, adjustments, and losses under subparagraph (1) attributable to Iowa and with a denominator of the sum of total net income computed under section 422.7 plus all tax preference items, adjustments, and losses under subparagraph (1). In computing this fraction, those items excludable under subparagraph (1) shall not be used in computing the tax preference items. Married taxpayers electing to file separate returns or separately on a combined return must allocate the minimum tax computed in this subsection in the proportion that each spouse's respective preference items, adjustments, and losses under subparagraph (1) bear to the combined preference items, adjustments, and losses under subparagraph (1) of both spouses.

Sec. 16. Section 422.8, subsection 2, Code 1995, is amended to read as follows:

2. a. Nonresident's net income allocated to Iowa is the net income, or portion thereof of net income, which is derived from a business, trade, profession, or occupation carried on within this state or income from any property, trust, estate, or other source within Iowa. However, income derived from a business, trade, profession, or occupation carried on within this state and income from any property, trust, estate, or

other source within Iowa shall not include distributions from pensions, including defined benefit or defined contribution plans, annuities, individual retirement accounts, and deferred compensation plans or any earnings attributable thereto so long as the distribution is directly related to an individual's documented retirement and received while the individual is a nonresident of this state. If a business, trade, profession, or occupation is carried on partly within and partly without the state, only the portion of the net income which is fairly and equitably attributable to that part of the business, trade, profession, or occupation carried on within the state is allocated to Iowa for purposes of section 422.5, subsection 1, paragraph "j", and section 422.13 and income from any property, trust, estate, or other source partly within and partly without the state is allocated to Iowa in the same manner, except that annuities, interest on bank deposits and interest-bearing obligations, and dividends are allocated to Iowa only to the extent to which they are derived from a business, trade, profession, or occupation carried on within the state.

b. A resident's income allocable to Iowa is the income determined under section 422.7 reduced by items of income and expenses from a subchapter S corporation which is a value-added corporation that carries on business within and without the state when those items of income and expenses pass directly to the shareholders under provisions of the Internal Revenue Code. These items of income and expenses are increased by the greater of the following:

(1) The net income or loss of the corporation which is fairly and equitably attributable to this state under section 422.33, subsections 2 and 3.

(2) Any cash or the value of property distributions which are made only to the extent that they are paid from income upon which Iowa income tax has not been paid, as determined under rules of the director, reduced by fifty percent of the

amount of any of these distributions that are made to enable the shareholder to pay federal income tax on items of income, loss, and expenses from the corporation.

Sec. 17. Section 422.8, Code 1995, is amended by adding the following new subsection:

NEW SUBSECTION. 6. If the resident or part-year resident is a shareholder of a value-added corporation which has in effect an election under subchapter S of the Internal Revenue Code, subsections 1 and 3 do not apply to any income taxes paid to another state or foreign country on the income from the value-added corporation which has in effect an election under subchapter S of the Internal Revenue Code.

Sec. 18. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1996, for tax years beginning on or after that date.

DIVISION V

LIVESTOCK PRODUCTION TAX CREDIT

Sec. 19. NEW SECTION. 422.120 LIVESTOCK PRODUCTION TAX CREDIT ALLOWED.

1. a. There is allowed a state tax credit for livestock production operations located in the state. The amount of the credit equals ten cents for each corn equivalent consumed by the livestock in the production operation as specified under this section. The credit shall be refunded as provided in section 422.121.

b. The credit shall be available to an individual or corporate taxpayer who owns livestock, if all of the following apply:

(1) The total net worth of the taxpayer during the taxpayer's tax year is less than one million dollars.

(2) The taxpayer receives, or accrues in the case of an accrual-basis taxpayer, more than one-half of the taxpayer's gross income from farming or ranching operations during the tax year. Gross income from farming or ranching is the amount

reported as gross income on schedule F, or the equivalent schedule, of the taxpayer's income tax return, the total gains from sales of breeding livestock, and, if applicable, the taxpayer's distributive share of income from farming or ranching from a partnership, limited liability company, subchapter S corporation, or an estate or trust. To determine whether a taxpayer receives more than one-half of gross income from farming or ranching, the taxpayer's amount of gross income from farming or ranching shall be divided by the taxpayer's total gross income as defined in section 61 of the federal Internal Revenue Code.

2. The amount of the credit per operation is determined by adding together for each head of livestock in the operation the product of ten cents times the number of corn equivalents consumed by that head of livestock. The amount of livestock production credit per operation per tax year shall not exceed three thousand dollars and the amount of livestock production credit per taxpayer per tax year shall not exceed three thousand dollars.

The maximum amount of corn equivalents for a head of livestock in a production operation is the following:

| | |
|---------------------------|-------------------|
| a. Hog operations: | Corn equivalents: |
| (1) Farrow to finish | 13.0 |
| (2) Farrow to feeder pig | 2.6 |
| (3) Finishing feeder pigs | 10.4 |
| b. Poultry operations: | |
| (1) Layers | 0.88 |
| (2) Turkeys | 1.5 |
| (3) Broilers | 0.15 |
| c. Beef operations: | |
| (1) Cow-calf | 111.5 |
| (2) Stocker | 41.5 |
| (3) Feedlot | 75.0 |
| (4) Dairy | 350.0 |
| d. Sheep operations: | |

- (1) Ewe flock 20.5
 (2) Feedlot 4.1

3. If the livestock operation is carried on partly within and partly without the state, the portion of the operation attributable to this state shall be determined pursuant to rules adopted by the department. The department may adjust the allocation upon request of the taxpayer in order to reflect the actual livestock operation carried on within this state.

4. An individual may claim the livestock production tax credit allowed a partnership, limited liability company, subchapter S corporation, or estate or trust electing to have the income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earning of the partnership, limited liability company, subchapter S corporation, or estate or trust.

5. A fraudulent claim for a credit refund under this division shall cause the forfeiture of any right or interest to a tax credit refund in subsequent tax years under this division.

Sec. 20. NEW SECTION. 422.121 APPROPRIATION.

Beginning with the fiscal year beginning July 1, 1997, there is appropriated annually from the general fund of the state two million dollars to refund the credits allowed under this division.

Sec. 21. NEW SECTION. 422.122 REFUND OF LIVESTOCK PRODUCTION CREDIT CLAIMS.

1. Each tax year the total amount of livestock production credit refund claims that shall be paid pursuant to section 422.120 shall not exceed the amount appropriated by the general assembly for that purpose. If the total dollar amount of the refund claims exceeds that amount, each claim shall be paid an amount equal to that amount divided by the total number of claims, not to exceed the amount of the taxpayer's

claim. Remaining funds shall be prorated among those claims not paid in full in the proportion that each such claim bears to the total amount of such claims not paid in full.

2. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled is the amount computed in subsection 1, and paid to the taxpayer, and the taxpayer is not entitled to any unpaid portion of a claim and is not entitled to carry forward or backward to another tax year any unpaid portion of a claim. A taxpayer shall not use a refund as an estimated payment for the succeeding tax year.

3. A taxpayer must file a claim for refund within ten months from the last day of the taxpayer's tax year. An extension for filing shall not be allowed. The department shall determine by February 28 of the calendar year following the calendar year in which the claims were filed if the total amount of claims for refund exceeds the amount appropriated for that purpose by the general assembly for the tax year. If the claim is not payable on February 28 because the taxpayer is a fiscal year filer, the claim shall be considered as a claim filed for the following tax year.

4. A claim for refund shall be made on claim forms to be made available by the department. In order for a taxpayer to have a valid refund claim, the taxpayer must supply legible copies of documents the director deems necessary to verify the amount of the refund.

Sec. 22. FISCAL YEAR 1997-1998 APPROPRIATION. Notwithstanding the livestock production operations described in section 422.120, for the tax year beginning on or after January 1, 1996, the appropriation in section 422.121 shall only be used to satisfy claims for cow-calf production.

Sec. 23. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 1996.

DIVISION VI
 SCHOOL STUDY GOALS

Sec. 24. It is the intent of the general assembly to support the study of the department of education required in 1996 Iowa Acts, House File 2477, if enacted, with the specified goals of increasing the capacity of the whole school to meet the needs of all children; increasing support available to at-risk students; and ensuring predictable and equitable special education funding at both the state and local levels; and with the additional goal of achieving parity between the percentage of regular program state cost per pupil and the percentage for that portion of weighted enrollment that is additional enrollment because of special education which constitute the regular program foundation base and the percentage of special education support services state cost per pupil which constitutes the special education support services foundation base.

DIVISION VII
FUNDING CREDITS AND EXEMPTIONS

Sec. 25. NEW SECTION. 25B.7 FUNDING PROPERTY TAX CREDITS AND EXEMPTIONS.

1. Beginning with property taxes due and payable in the fiscal year beginning July 1, 1997, the cost of providing a property tax credit or property tax exemption which is enacted by the general assembly on or after January 1, 1997, shall be fully funded by the state. If a state appropriation made to fund a credit or exemption which is enacted on or after January 1, 1997, is not sufficient to fully fund the credit or exemption, the political subdivision shall be required to extend to the taxpayer only that portion of the credit or exemption funded by the state appropriation. The department of revenue and finance shall determine the portion of the credit or exemption which will be funded by the state appropriation.

2. The requirement for fully funding and the consequences of not fully funding credits and exemptions under subsection 1 also apply to all of the following:

- a. Homestead tax credit pursuant to sections 425.1 through 425.15.
- b. Elderly, low-income, and disabled property tax credits pursuant to sections 425.16 through 425.40.
- c. Military service property tax credits and exemptions pursuant to chapter 426A and sections 427.3 through 427.7.

Sec. 26. This division of this Act takes effect July 1, 1996.

LEONARD L. BOSWELL
President of the Senate

RON J. CORBETT
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2449, Seventy-sixth General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved _____, 1996

TERRY E. BRANSTAD
Governor

VETO

VETO