

FEB 10 1997
WAYS AND MEANS

HOUSE FILE 181
BY BLODGETT

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the deductibility of federal income taxes paid
2 or accrued under the individual income tax by reducing certain
3 tax rates for an election to not deduct federal taxes paid or
4 accrued for certain tax years, and including an effective and
5 applicability date provision.

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

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HF 181

1 Section 1. Section 422.5, subsection 1, Code 1997, is
2 amended by adding the following new paragraph:

3 NEW PARAGRAPH. 1. If a taxpayer elects to deduct federal
4 income taxes paid or accrued to the extent provided in section
5 422.9, subsection 2, paragraph "b", subparagraph (2), the
6 rates specified in paragraphs "g", "h", and "i" shall be
7 reduced to the rate of seven and one-half percent for each
8 paragraph.

9 Sec. 2. Section 422.9, subsection 1, Code 1997, is amended
10 to read as follows:

11 1. An optional standard deduction, after deduction of
12 federal income tax, equal to one thousand two hundred thirty
13 dollars for a married person who files separately or a single
14 person or equal to three thousand thirty dollars for a husband
15 and wife who file a joint return, a surviving spouse, or an
16 unmarried head of household. The optional standard deduction
17 shall not exceed the amount remaining after deduction of the
18 federal income tax. The amount of the federal income taxes
19 deducted shall not exceed the amount as computed under
20 subsection 2, paragraph "b".

21 Sec. 3. Section 422.9, subsection 2, paragraph "b", Code
22 1997, is amended to read as follows:

23 b. The taxpayer shall elect the extent to which federal
24 income taxes are deductible as follows:

25 (1) Add the amount of federal income taxes paid or accrued
26 as the case may be, during the tax year, adjusted by any
27 federal income tax refunds. ~~Provided, however, that~~ However,
28 where married persons, who have filed a joint federal income
29 tax return, file separately, such total shall be divided
30 between them according to the portion thereof paid or accrued,
31 as the case may be, by each. Federal income taxes paid do not
32 include amounts paid as a result of an adjustment to a federal
33 return for a tax year to which subparagraph (2) was selected.

34 (2) Add the amount of federal income taxes paid with the
35 federal return or as a result of an adjustment to a federal

1 return for tax years ending prior to January 1, 1998.
2 Subtract the amount of federal income tax refunds received for
3 a tax year to the extent that the federal income tax was
4 deducted in a previous tax year. A taxpayer electing to
5 deduct federal income tax as provided in this subparagraph for
6 the tax year shall have the income tax rates adjusted as
7 provided in section 422.5, subsection 1, paragraph "1". If
8 one spouse elects to deduct federal income taxes to the extent
9 allowed in this subparagraph, the other spouse shall also make
10 such election.

11 Sec. 4. This Act takes effect January 1, 1998, and applies
12 to tax years beginning on or after that date.

13 EXPLANATION

14 The bill gives the taxpayer an option to reduce the three
15 highest bracket rates from 7.55 percent, 8.8 percent, and 9.98
16 percent to 7.5 percent by electing to not deduct federal
17 income taxes paid or accrued for tax years beginning on or
18 after January 1, 1998. A taxpayer who does not make this
19 election will be taxed at the present rates and will be
20 allowed the present deduction for federal income taxes paid or
21 accrued.

22 The bill takes effect January 1, 1998, for tax years
23 beginning on or after that date.

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