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WAYS & MEANS CALENDAR

HOUSE FILE 2513
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 637)

Passed House, Date (p. 1218) 4-2-98 Passed Senate, Date 4/15/98
Vote: Ayes 94 Nays 5 Vote: Ayes 44 Nays 5
Approved May 6, 1998

A BILL FOR

1 An Act relating to the individual income tax by eliminating the
2 taxation of certain capital gains and providing special
3 treatment of gains from the sales of businesses to
4 descendants, increasing the amount of pension income excluded,
5 increasing certain personal exemption tax credits, and
6 increasing and expanding the tuition and textbook tax credit,
7 exempting sales and services to certain nonprofit hospitals
8 from the sales, services, and use taxes, and relating to the
9 income eligibility requirements for the homestead property tax
10 credit, mobile home tax credit, or reimbursement for rent
11 constituting property taxes paid, and including effective and
12 prospective and retroactive applicability date provisions.

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

14

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HOUSE FILE 2513

H-8211

1 Amend House File 2513 as follows:

2 1. Page 3, line 28, by striking the word "twenty-
3 five" and inserting the following: "twenty".

W/D 4/2/98 (p. 1201)

By JENKINS of Black Hawk
GREIG of Emmet

H-8211 FILED MARCH 4, 1998

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TLSB 4210HV 77

mg/sc/14

HF 2513

1 DIVISION I

2 CAPITAL GAINS

3 Section 1. Section 422.7, subsection 21, unnumbered
4 paragraph 1, Code Supplement 1997, is amended to read as
5 follows:

6 Subtract ~~forty-five-percent-of~~ the net capital gain from
7 the following:

8 Sec. 2. Section 422.7, subsection 21, paragraph a, Code
9 Supplement 1997, is amended to read as follows:

10 a. (1) Net capital gain from the sale of real property
11 used in a business, in which the taxpayer materially
12 participated for ten years, as defined in section 469(h) of
13 the Internal Revenue Code, and which has been held for a
14 minimum of ten years, or from the sale of a business, as
15 defined in section 422.42, in which the taxpayer was employed
16 or in which the taxpayer materially participated for ten
17 years, as defined in section 469(h) of the Internal Revenue
18 Code, and which has been held for a minimum of ten years. The
19 sale of a business means the sale of all or substantially all
20 of the tangible personal property or service of the business.

21 However, where the business is sold to individuals who are
22 all lineal descendants of the taxpayer, the taxpayer does not
23 have to have materially participated in the business in order
24 for the net capital gain from the sale to be excluded from
25 taxation.

26 However, in lieu of the net capital gain deduction in this
27 paragraph and paragraphs "b", "c", and "d", where the business
28 is sold to individuals who are all lineal descendants of the
29 taxpayer, the amount of capital gain from each capital asset
30 may be subtracted in determining net income.

31 (2) For purposes of this paragraph, "lineal descendant"
32 means children of the taxpayer, including legally adopted
33 children and biological children, stepchildren, grandchildren,
34 great-grandchildren, and any other lineal descendants of the
35 taxpayer.

1 the death of the other spouse. A husband and wife filing
2 separate state income tax returns or separately on a combined
3 state return are allowed a combined maximum exclusion under
4 this subsection of up to ten thousand dollars. The ten
5 thousand dollar exclusion shall be allocated to the husband or
6 wife in the proportion that each spouse's respective pension
7 and retirement pay received bears to total combined pension
8 and retirement pay received.

9 Sec. 6. This division of this Act, being deemed of
10 immediate importance, takes effect upon enactment and applies
11 retroactively to January 1, 1998, for tax years beginning on
12 or after that date.

13 DIVISION III

14 PERSONAL EXEMPTION CREDIT

15 Sec. 7. Section 422.12, subsection 1, paragraphs a and b,
16 Code 1997, is amended to read as follows:

- 17 a. For an estate or trust, a single individual, or a
18 married person filing a separate return, twenty forty dollars.
19 b. For a head of household, or a husband and wife filing a
20 joint return, forty eighty dollars.

21 Sec. 8. This division of this Act applies retroactively to
22 January 1, 1998, for tax years beginning on or after that
23 date.

24 DIVISION IV

25 TUITION TAX CREDIT

26 Sec. 9. Section 422.12, subsection 2, Code 1997, is
27 amended to read as follows:

- 28 2. A tuition credit equal to ~~ten~~ twenty-five percent of
29 the first one thousand dollars which the taxpayer has paid to
30 others for each dependent in grades kindergarten through
31 twelve, for tuition and textbooks of each dependent in
32 attending an elementary or secondary school situated in Iowa,
33 which school is accredited or approved under section 256.11,
34 which is not operated for profit, and which adheres to the
35 provisions of the federal Civil Rights Act of 1964 and chapter

1 216. As used in this subsection, "textbooks" means books and
2 other instructional materials and equipment used in elementary
3 and secondary schools in teaching only those subjects legally
4 and commonly taught in public elementary and secondary schools
5 in this state and does not include instructional books and
6 materials used in the teaching of religious tenets, doctrines,
7 or worship, the purpose of which is to inculcate those tenets,
8 doctrines, or worship, ~~and does not include.~~ "Textbooks"
9 includes books or materials used for extracurricular
10 activities including sporting events, musical or dramatic
11 events, speech activities, driver's education, or programs of
12 a similar nature. Notwithstanding any other provision, all
13 other credits allowed under this section and section 422.12B
14 shall be deducted before the tuition credit under this
15 subsection. The department, when conducting an audit of a
16 taxpayer's return, shall also audit the tuition tax credit
17 portion of the tax return.

18 As used in this subsection, "tuition" means any charges for
19 the expenses of personnel, buildings, equipment and materials
20 other than textbooks, and other expenses of elementary or
21 secondary schools which relate to the teaching only of those
22 subjects legally and commonly taught in public elementary and
23 secondary schools in this state and which do not relate to the
24 teaching of religious tenets, doctrines, or worship, the
25 purpose of which is to inculcate those tenets, doctrines, or
26 worship, ~~and which do not.~~ "Tuition" includes those expenses
27 which relate to extracurricular activities including sporting
28 events, musical or dramatic events, speech activities,
29 driver's education, or programs of a similar nature. However,
30 in the case of public schools, only those expenses or fees
31 specifically authorized by statute which relate to
32 extracurricular activities are included as tuition.

33 Sec. 10. This division of this Act applies retroactively
34 to January 1, 1998, for tax years beginning on or after that
35 date.

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DIVISION V

EXEMPTION FOR NONPROFIT HOSPITALS

Sec. 11. Section 422.45, Code 1997, is amended by adding the following new subsection:

NEW SUBSECTION. 52. The gross receipts from the sale or rental of tangible personal property or from services performed, rendered, or furnished to a nonprofit hospital licensed pursuant to chapter 135B to be used in the operation of the hospital.

DIVISION VI

HOMESTEAD CREDIT, RENT REIMBURSEMENT, AND
MOBILE HOME TAX CREDIT

Sec. 12. Section 425.23, subsection 1, Code 1997, is amended to read as follows:

1. a. The tentative credit or reimbursement for a claimant described in section 425.17, subsection 2, paragraph "a" and paragraph "b" if no appropriation is made to the fund created in section 425.40 shall be determined in accordance with the following schedule:

	Percent of property taxes due or rent constituting property taxes paid allowed as a credit or reimbursement:
\$-----0-----5,999.99.....	100%
--6,000-----6,999.99.....	85
--7,000-----7,999.99.....	70
--8,000-----9,999.99.....	50
-10,000----11,999.99.....	35
-12,000----13,999.99.....	25
<u>\$ 0 -- 8,499.99</u>	<u>100%</u>
<u>8,500 -- 9,499.99</u>	<u>85</u>
<u>9,500 -- 10,499.99</u>	<u>70</u>
<u>10,500 -- 12,499.99</u>	<u>50</u>
<u>12,500 -- 14,499.99</u>	<u>35</u>

1 14,500 -- 16,499.99 25

2 b. If moneys have been appropriated to the fund created in
3 section 425.40, the tentative credit or reimbursement for a
4 claimant described in section 425.17, subsection 2, paragraph
5 "b", shall be determined as follows:

6 (1) If the amount appropriated under section 425.40 plus
7 any supplemental appropriation made for a fiscal year for
8 purposes of this lettered paragraph is at least twenty-seven
9 million dollars, the tentative credit or reimbursement shall
10 be determined in accordance with the following schedule:

11		Percent of property taxes
12		due or rent constituting
13		property taxes paid
14	If the household	allowed as a credit or
15	income is:	reimbursement:
16	\$-----0-----5,999.99.....	100%
17	--6,000-----6,999.99.....	85
18	--7,000-----7,999.99.....	70
19	--8,000-----9,999.99.....	50
20	-10,000-----11,999.99.....	35
21	-12,000-----13,999.99.....	25
22	<u>\$ 0 -- 8,499.99</u>	<u>100%</u>
23	<u>8,500 -- 9,499.99</u>	<u>85</u>
24	<u>9,500 -- 10,499.99</u>	<u>70</u>
25	<u>10,500 -- 12,499.99</u>	<u>50</u>
26	<u>12,500 -- 14,499.99</u>	<u>35</u>
27	<u>14,500 -- 16,499.99</u>	<u>25</u>

28 (2) If the amount appropriated under section 425.40 plus
29 any supplemental appropriation made for a fiscal year for
30 purposes of this lettered paragraph is less than twenty-seven
31 million dollars the tentative credit or reimbursement shall be
32 determined in accordance with the following schedule:

33		Percent of property taxes
34		due or rent constituting
35		property taxes paid

1	If the household	allowed as a credit or
2	income is:	reimbursement:
3	\$-----0-----5,999.99.....	50%
4	--6,000-----6,999.99.....	42
5	--7,000-----7,999.99.....	35
6	--8,000-----9,999.99.....	25
7	-10,000-----11,999.99.....	17
8	-12,000-----13,999.99.....	12
9	<u>\$ 0 -- 8,499.99</u>	<u>50%</u>
10	<u>8,500 -- 9,499.99</u>	<u>42</u>
11	<u>9,500 -- 10,499.99</u>	<u>35</u>
12	<u>10,500 -- 12,499.99</u>	<u>25</u>
13	<u>12,500 -- 14,499.99</u>	<u>17</u>
14	<u>14,500 -- 16,499.99</u>	<u>12</u>

15 Sec. 13. Section 425.23, subsection 3, paragraph a, Code
 16 1997, is amended to read as follows:

17 a. A person who is eligible to file a claim for credit for
 18 property taxes due and who has a household income of six eight
 19 thousand five hundred dollars or less and who has an unpaid
 20 special assessment levied against the homestead may file a
 21 claim for a special assessment credit with the county
 22 treasurer. The department shall provide to the respective
 23 treasurers the forms necessary for the administration of this
 24 subsection. The claim shall be filed not later than September
 25 30 of each year. Upon the filing of the claim, interest for
 26 late payment shall not accrue against the amount of the unpaid
 27 special assessment due and payable. The claim filed by the
 28 claimant constitutes a claim for credit of an amount equal to
 29 the actual amount due upon the unpaid special assessment, plus
 30 interest, payable during the fiscal year for which the claim
 31 is filed against the homestead of the claimant. However,
 32 where the claimant is an individual described in section
 33 425.17, subsection 2, paragraph "b", and the tentative credit
 34 is determined according to the schedule in ~~section-425-23,~~
 35 subsection 1, paragraph "b", subparagraph (2), of this

1 section, the claim filed constitutes a claim for credit of an
2 amount equal to one-half of the actual amount due and payable
3 during the fiscal year. The treasurer shall certify to the
4 director of revenue and finance not later than October 15 of
5 each year the total amount of dollars due for claims allowed.
6 The amount of reimbursement due each county shall be paid by
7 the director of revenue and finance by November 15 of each
8 year, drawn upon warrants payable to the respective treasurer.
9 There is appropriated annually from the general fund of the
10 state to the department of revenue and finance an amount
11 sufficient to carry out the provisions of this subsection.
12 The treasurer shall credit any moneys received from the
13 department against the amount of the unpaid special assessment
14 due and payable on the homestead of the claimant.

15 Sec. 14. Section 425.23, Code 1997, is amended by adding
16 the following new subsection:

17 NEW SUBSECTION. 4. a. For the base year beginning in the
18 1999 calendar year and for each subsequent base year, the
19 dollar amounts set forth in subsections 1 and 3 shall be
20 multiplied by the cumulative adjustment factor for that base
21 year. "Cumulative adjustment factor" means the product of the
22 annual adjustment factor for the 1998 base year and all annual
23 adjustment factors for subsequent base years. The cumulative
24 adjustment factor applies to the base year beginning in the
25 calendar year for which the latest annual adjustment factor
26 has been determined.

27 b. The annual adjustment factor for the 1998 base year is
28 one hundred percent. For each subsequent base year, the
29 annual adjustment factor equals the annual inflation factor
30 for the calendar year, in which the base year begins, as
31 computed in section 422.4 for purposes of the individual
32 income tax.

33 Sec. 15. Section 435.22, subsection 2, Code 1997, is
34 amended to read as follows:

35 2. If the owner of the home is an Iowa resident, has

1 attained the age of twenty-three years on or before December
 2 31 of the base year, and has an income when included with that
 3 of a spouse which is less than ~~six~~ eight thousand five hundred
 4 dollars per year, the annual tax shall not be imposed on the
 5 home. If the income is ~~six~~ eight thousand five hundred
 6 dollars or more but less than fourteen sixteen thousand five
 7 hundred dollars, the annual tax shall be computed as follows:

8	If the Household	Annual Tax Per
9	Income is:	Square Foot:
10	---\$-6,000-----6,999.99-----	3.0-cents
11	-----7,000-----7,999.99-----	6.0
12	-----8,000-----9,999.99-----	10.0
13	-----10,000-----11,999.99-----	13.0
14	-----12,000-----13,999.99-----	15.0
15	<u>\$ 8,500 -- 9,499.99</u>	<u>3.0 cents</u>
16	<u>9,500 -- 10,499.99</u>	<u>6.0</u>
17	<u>10,500 -- 12,499.99</u>	<u>10.0</u>
18	<u>12,500 -- 14,499.99</u>	<u>13.0</u>
19	<u>14,500 -- 16,499.99</u>	<u>15.0</u>

20 For purposes of this subsection "income" means income as
 21 defined in section 425.17, subsection 7, and "base year" means
 22 the calendar year preceding the year in which the claim for a
 23 reduced rate of tax is filed. The home reduced rate of tax
 24 shall only be allowed on the home in which the claimant is
 25 residing at the time in which the claim for a reduced rate of
 26 tax is filed.

27 Beginning with the 1998 base year, the income dollar
 28 amounts set forth in this subsection shall be multiplied by
 29 the cumulative adjustment factor for that base year as
 30 determined in section 425.23, subsection 4.

31 Sec. 16. APPLICABILITY. This division of this Act applies
 32 to claims for credit for property taxes due, claims for
 33 reimbursement for rent constituting property taxes paid, and
 34 claims for credit for mobile home taxes due filed on or after
 35 January 1, 1999.

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EXPLANATION

2 Division I of the bill eliminates the taxation for
3 individual income tax purposes of certain qualifying net
4 capital gains, including gains from the sale of certain
5 livestock and timber, and business real property. Present law
6 allows only a 45 percent deduction. The division also
7 eliminates the material participation requirement from sales
8 of businesses to lineal descendants for purposes of the
9 taxation of net capital gains from these sales.

10 The division provides for complete exemption from the state
11 individual income tax of capital gains from each capital asset
12 when it is part of a sale of the taxpayer's business if the
13 sale is made to a lineal descendant of the taxpayer.

14 This division takes effect upon enactment and applies
15 retroactively to January 1, 1998, for tax years beginning on
16 or after that date.

17 Division II of the bill increases from \$3,000 to \$5,000 for
18 separate filers, except husbands and wives filing separately,
19 and from \$6,000 to \$10,000 for joint filers the exemption
20 allowed under the individual income tax for pension and
21 deferred compensation income. Husbands and wives filing
22 separately may receive an exclusion of up to \$10,000 of
23 pension and deferred compensation income received between
24 them. The division takes effect upon enactment and applies
25 retroactively to January 1, 1998, for tax years beginning on
26 or after that date.

27 Division III of the bill doubles the amounts of the
28 personal exemption credits for single filers, heads of
29 household, and joint filers under the state individual income
30 tax. The division applies retroactively to January 1, 1998,
31 for tax years beginning on or after that date.

32 Division IV of the bill increases the tuition and textbook
33 tax credit from 10 percent to 25 percent of the first \$1,000
34 paid by the taxpayer for each dependent for tuition and
35 textbooks to attend an accredited elementary or secondary

1 school. The division also expands the definitions of
2 "tuition" and "textbooks" to include those expenses,
3 materials, or charges relating to extracurricular activities.
4 The credit is a nonrefundable credit that is applied against
5 the taxpayer's state individual income tax. However, for
6 public schools, the expenses or fees must be authorized
7 specifically by statute in order to be considered as tuition
8 expenses.

9 This division applies retroactively to January 1, 1998, for
10 tax years beginning on or after that date.

11 Division V of this bill exempts sales and services made to
12 nonprofit hospitals from the state sales and use taxes if the
13 hospital is licensed under chapter 135B and the property and
14 services are used in the operation of the hospital.

15 Division VI of this bill changes present law which grants a
16 mobile home tax credit, additional homestead credit, and
17 reimbursement for rent constituting property taxes paid for
18 certain low-income persons based upon household incomes.
19 Under present law, the maximum credit and reimbursement is
20 granted to those with household incomes of \$6,000 or less with
21 no credit or reimbursement granted to those with household
22 incomes of \$14,000 or more. The division increases these
23 figures to \$8,500 or less and \$16,500 or more, respectively.
24 The division also adjusts these figures for inflation on an
25 annual basis.

26 The division applies to claims for credits or
27 reimbursements filed on or after January 1, 1999.

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**HOUSE FILE 2513
FISCAL NOTE**

A fiscal note for House File 2513 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 2513 makes a number of changes to various components of taxation. First, the Bill amends the capital gains provisions by eliminating the 45.0% cap on gains to a maximum \$17,500 deduction. Under the Bill, all gains fitting the current definition are excludable from income. Second, the Bill provides that if a business is sold to a lineal descendant, the business owner does not have to have materially participated in the business to receive the capital gains exclusion.

The Bill also raises the pension income exclusion from \$3,000 and \$6,000 (single/joint filers) to \$5,000 and \$10,000.

In Division 3, HF 2513 raises the personal exemption credit from \$20 to \$40 (single/married separate filers) and \$40 to \$80 (married-joint filers and heads of household).

In Division 4, the Bill raises the tuition tax credit from 10.0% of the first \$1,000 to 25.0% of the first \$1,000 paid for school expenses. This effectively raises the value of the credit from \$100 to \$250. Division 4 also expands the definition of allowable fees to include extracurricular fees but restricts public school fees to those fees specifically authorized by statute.

Division 5 provides a sales tax exemption for privately owned hospitals. The sales tax exemption does not apply to construction projects.

Division 6 increases the income eligibility requirements for the elderly and disabled, rent reimbursement, low-income, and mobile home tax credits. This Section of the Bill also provides for indexation of the income amounts.

All provisions of the Bill are effective January 1, 1998, except Division 6 which is effective January 1, 1999.

FISCAL EFFECT

Division 1 is expected to result in a net loss in General Fund revenue of \$18.0 million each fiscal year. The loss in revenue attributable to the increase in the exemption from 45.0% up to 100.0% of permissible capital gains is equal to \$10.0 million. The remainder of the revenue loss is attributable to the exemption for lineal descendants.

Division 2 is expected to result in a net loss in General Fund revenue of \$20.0 million in FY 1999 and \$18.0 million in FY 2000. This Division raises the pension income exclusion from \$3,000/\$6,000 (single/joint filers) to \$5,000/\$10,000. Of the total, approximately \$4.0 million is due to changing

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the way pension income is allocated between married-separate filers.

Division 3 is expected to result in a net loss in General Fund revenue of \$28.8 million in FY 1999 and \$26.2 million each year thereafter. This Division raises the personal exemption from \$20 to \$40 for single filers and \$40 to \$80 for married-joint filers.

Division 4 is expected to result in a net loss in General Fund revenue of \$3.8 million each year. This Division raises the Tuition and Textbook Tax Credit from 10.0% to 25.0% of permissible expenditures. This has the effect of increasing the maximum credit from \$100 to \$250. This Division also amends the definition of permissible expenditures to include extracurricular fees.

Division 5 is expected to result in a net loss in General Fund revenue of \$15.0 million each year. This Division provides a sales tax exemption for privately owned nonprofit hospitals. The exemption is not applicable to construction projects.

Division 6 is expected to result in an increased General Fund expenditure of \$1.9 million in FY 2000 and \$330,000 each year thereafter. This Division increases the income levels for the elderly, renter, and mobile home tax credits. The top income level is increased by 17.9%, with similar increases in all income levels. This Division also provides for automatic indexing of the income levels each year.

FISCAL IMPACT

(Dollar Amounts in Millions)

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Capital Gains	\$18.0	\$18.5	\$19.1
Pension Exclusion	20.0	18.0	18.4
Personal Exemption	28.8	26.2	26.2
Tuition Tax Credit	3.8	3.8	3.8
Hospital Sales Tax Exemption	15.0	15.0	15.0
Elderly and Rent Reimbursement Credit	0.0	1.9	0.3
Total	<u>\$85.6</u>	<u>\$83.7</u>	<u>\$82.8</u>

SOURCES

Legislative Tax Model
Iowa Department of Revenue and Finance
Iowa Hospitals and Health Systems

(LSB 4210hv, LCS)

FILED MARCH 4, 1998

BY DENNIS PROUTY, FISCAL DIRECTOR

**HOUSE FILE 2513
FISCAL NOTE**

A fiscal note for House File 2513 as passed by the House is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 2513 as passed by the House makes a number of changes to various components of taxation. First, the Bill amends the capital gains provisions by eliminating the 45.0% cap on gains to a maximum \$17,500 deduction. Under the Bill, all gains fitting the current definition are excludable from income. Second, the Bill provides that if a business is sold to a lineal descendant, the business owner does not have to have materially participated in the business to receive the capital gains exclusion.

The Bill also raises the pension income exclusion from \$3,000 and \$6,000 (single/joint filers) to \$5,000 and \$10,000.

In Division 3, HF 2513 raises the personal exemption credit from \$20 to \$40 (single/married separate filers) and \$40 to \$80 (married-joint filers and heads of household).

In Division 4, the Bill raises the tuition tax credit from 10.0% of the first \$1,000 to 25.0% of the first \$1,000 paid for school expenses. This effectively raises the value of the credit from \$100 to \$250. Division 4 also expands the definition of allowable fees to include extracurricular fees.

Division 5 provides a sales tax exemption for privately owned hospitals. The sales tax exemption does not apply to construction projects.

Division 6 increases the income eligibility requirements for the elderly and disabled, rent reimbursement, low-income, and mobile home tax credits. This Section of the Bill also provides for indexation of the income amounts.

All provisions of the Bill are effective January 1, 1998, except Division 6 which is effective January 1, 1999.

FISCAL EFFECT

Division 1 is expected to result in a net loss in General Fund revenue of \$18.0 million each fiscal year. The loss in revenue attributable to the increase in the exemption from 45.0% up to \$17,500 to 100.0% of permissible capital gains is equal to \$10.0 million. The remainder of the revenue loss is attributable to the exemption for lineal descendants.

Division 2 is expected to result in a net loss in General Fund revenue of \$20.0 million in FY 1999 and \$18.0 million in FY 2000. This Division raises the pension income exclusion from \$3,000/\$6,000 (single/joint filers) to \$5,000/\$10,000. Of the total, approximately \$4.0 million is due to changing

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the way pension income is allocated between married-separate filers.

Division 3 is expected to result in a net loss in General Fund revenue of \$28.8 million in FY 1999 and \$26.2 million each year thereafter. This Division raises the personal exemption from \$20 to \$40 for single filers and \$40 to \$80 for married-joint filers.

Division 4 is expected to result in a net loss in General Fund revenue of \$3.8 million each year. This Division raises the Tuition and Textbook Tax Credit from 10.0% to 25.0% of permissible expenditures. This has the effect of increasing the maximum credit from \$100 to \$250. This Division also amends the definition of permissible expenditures to include extracurricular fees.

Division 5 is expected to result in a net loss in General Fund revenue of \$15.0 million each year. This Division provides a sales tax exemption for privately owned nonprofit hospitals. The exemption is not applicable to construction projects.

Division 6 is expected to result in an increased General Fund expenditure of \$1.9 million in FY 2000 and \$330,000 each year thereafter. This Division increases the income levels for the elderly, renter, and mobile home tax credits. The top income level is increased by 17.9%, with similar increases in all income levels. This Division also provides for automatic indexing of the income levels each year.

FISCAL IMPACT

(Dollar Amounts in Millions)

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Capital Gains	\$18.0	\$18.5	\$19.1
Pension Exclusion	20.0	18.0	18.4
Personal Exemption	28.8	26.2	26.2
Tuition Tax Credit	3.8	3.8	3.8
Hospital Sales Tax Exemption	15.0	15.0	15.0
Elderly and Rent Reimbursement Credit	0.0	1.9	0.3
Total	<u>\$85.6</u>	<u>\$83.4</u>	<u>\$82.8</u>

SOURCES

Legislative Tax Model
Iowa Department of Revenue and Finance
Iowa Hospitals and Health Systems

(LSB 4210HV.2, LCS)

FILED APRIL 6, 1998

BY DENNIS PROUTY, FISCAL DIRECTOR

HOUSE FILE 2513

H-8293

1 Amend House File 2513 as follows:

2 1. Page 5, line 2, by inserting after the word
3 "HOSPITALS" the following: "AND MASSAGE THERAPISTS".

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

6 "Sec. ____ . Section 422.43, subsection 11,
7 unnumbered paragraph 1, Code Supplement 1997, is
8 amended to read as follows:

9 The following enumerated services are subject to
10 the tax imposed on gross taxable services: alteration
11 and garment repair; armored car; vehicle repair;
12 battery, tire, and allied; investment counseling;
13 service charges of all financial institutions; barber
14 and beauty; boat repair; vehicle wash and wax;
15 carpentry; roof, shingle, and glass repair; dance
16 schools and dance studios; dating services; dry
17 cleaning, pressing, dyeing, and laundering; electrical
18 and electronic repair and installation; rental of
19 tangible personal property, except mobile homes which
20 are tangible personal property; excavating and
21 grading; farm implement repair of all kinds; flying
22 service; furniture, rug, upholstery repair and
23 cleaning; fur storage and repair; golf and country
24 clubs and all commercial recreation; house and
25 building moving; household appliance, television, and
26 radio repair; jewelry and watch repair; limousine
27 service, including driver; machine operator; machine
28 repair of all kinds; motor repair; motorcycle,
29 scooter, and bicycle repair; oilers and lubricators;
30 office and business machine repair; painting,
31 papering, and interior decorating; parking facilities;
32 pipe fitting and plumbing; wood preparation; licensed
33 executive search agencies; private employment
34 agencies, excluding services for placing a person in
35 employment where the principal place of employment of
36 that person is to be located outside of the state;
37 sewage services for nonresidential commercial
38 operations; sewing and stitching; shoe repair and
39 shoeshine; sign construction and installation; storage
40 of household goods, mini-storage, and warehousing of
41 raw agricultural products; swimming pool cleaning and
42 maintenance; taxidermy services; telephone answering
43 service; test laboratories, including mobile testing
44 laboratories and field testing by testing
45 laboratories, and excluding tests on humans or
46 animals; termite, bug, roach, and pest eradicators;
47 tin and sheet metal repair; turkish baths, massage,
48 and reducing salons, excluding services provided by
49 massage therapists licensed under chapter 152C;
50 weighing; welding; well drilling; wrapping, packing,

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Page 2

- 1 and packaging of merchandise other than processed
- 2 meat, fish, fowl and vegetables; wrecking service;
- 3 wrecker and towing; pay television; campgrounds;
- 4 carpet and upholstery cleaning; gun and camera repair;
- 5 janitorial and building maintenance or cleaning; lawn
- 6 care, landscaping and tree trimming and removal; pet
- 7 grooming; reflexology; security and detective
- 8 services; tanning beds or salons; and water
- 9 conditioning and softening."
- 10 3. Title page, line 7, by inserting after the
- 11 word "hospitals" the following: "and services
- 12 provided by licensed massage therapists".
- 13 4. By renumbering as necessary.

By DODERER of Johnson
 MASCHER of Johnson
 JOCHUM of Dubuque

H-8293 FILED MARCH 10, 1998

lost 4/2/98 (p. 1205)

HOUSE FILE 2513

H-8292

- 1 Amend House File 2513 as follows;
- 2 1. Page 5, line 9, by inserting after the word
- 3 "hospital" the following: "or to a nonprofit nursing
- 4 facility licensed pursuant to chapter 135C to be used
- 5 in the operation of the nursing facility".
- 6 2. Title page, line 7, by inserting after the
- 7 word "hospitals" the following: "and nursing
- 8 facilities".

By JOCHUM of Dubuque
 DODERER of Johnson
 MASCHER of Johnson

H-8292 FILED MARCH 10, 1998

lost 4/2/92 (p. 1205)

HOUSE FILE 2513

H-8375

- 1 Amend House File 2513 as follows:
- 2 1. Page 5, by inserting after line 9 the
- 3 following:
- 4 "However, the hospital shall pay the tax and any
- 5 local option tax at the time of the sale or rental of
- 6 the tangible personal property or at the time the
- 7 services are performed, rendered, or furnished and
- 8 shall then file for a refund of only the state taxes
- 9 paid on forms provided by the department. Claims for
- 10 refunds shall be filed no later than June 30 of the
- 11 state fiscal year following the state fiscal year in
- 12 which the taxes were paid."

By OSTERHAUS of Jackson

H-8375 FILED MARCH 12, 1998

H-8376

1 Amend House File 2513 as follows:

2 1. Page 5, line 9, by inserting after the word
3 "hospital." the following: "This exemption does not
4 apply to a local option sales and services tax imposed
5 under chapter 422B or under the provisions of any
6 other chapter."

7 2. Page 5, by inserting after line 9 the
8 following:

9 "Sec. ____ . Section 422B.8, unnumbered paragraph 1,
10 Code 1997, is amended to read as follows:

11 A local sales and services tax at the rate of not
12 more than one percent may be imposed by a county on
13 the gross receipts taxed by the state under chapter
14 422, division IV. A local sales and services tax
15 shall be imposed on the same basis as the state sales
16 and services tax and may not be imposed on the sale of
17 any property or on any service not taxed by the state,
18 except the exemption for certain nonprofit hospitals
19 in section 422.45, subsection 52, does not apply and
20 except the tax shall not be imposed on the gross
21 receipts from the sale of motor fuel or special fuel
22 as defined in chapter 452A, on the gross receipts from
23 the rental of rooms, apartments, or sleeping quarters
24 which are taxed under chapter 422A during the period
25 the hotel and motel tax is imposed, on the gross
26 receipts from the sale of natural gas or electric
27 energy in a city or county where the gross receipts
28 are subject to a franchise fee or user fee during the
29 period the franchise or user fee is imposed, on the
30 gross receipts from the sale of equipment by the state
31 department of transportation, and on the gross
32 receipts from the sale of a lottery ticket or share in
33 a lottery game conducted pursuant to chapter 99E. A
34 local sales and services tax is applicable to
35 transactions within those incorporated and
36 unincorporated areas of the county where it is imposed
37 and shall be collected by all persons required to
38 collect state gross receipts taxes. All cities
39 contiguous to each other shall be treated as part of
40 one incorporated area and the tax would be imposed in
41 each of those contiguous cities only if the majority
42 of those voting in the total area covered by the
43 contiguous cities favor its imposition."

44 3. By renumbering as necessary.

By OSTERHAUS of Jackson

H-8376 FILED MARCH 12, 1998

W/D 4/2/98 (P. 1205)

HOUSE FILE 2513

H-8397

1 Amend House File 2513 as follows:

2 1. Page 9, by inserting after line 35 the
3 following:

4 "DIVISION
5 INSTRUCTIONAL SUPPORT STATE AID

6 Sec. ____ . Section 257.20, subsection 2, paragraphs
7 a and b, Code 1997, are amended by striking the
8 paragraphs."

9 2. Title page, line 11, by inserting after the
10 word "paid," the following: "fully funding state aid
11 under the school instructional support program,".

By RICHARDSON of Warren

H-8397 FILED MARCH 12, 1998

W/D 4/2/97

HOUSE FILE 2513

H-8384

- 1 Amend House File 2513 as follows:
 - 2 1. Page 3, line 28, by striking the words "ten
 - 3 twenty-five" and inserting the following: "ten".
- By RICHARDSON of Warren
FALLON of Polk

H-8384 FILED MARCH 12, 1998

Lost 4/2/98 (p. 1201)

HOUSE FILE 2513

H-8385

- 1 Amend House File 2513 as follows:
- 2 1. Page 4, by striking lines 1 through 29 and
- 3 inserting the following: "216. As used in this
- 4 subsection, "textbooks" means books, necessary school
- 5 supplies, and other instructional materials, eye and
- 6 ear protective devices, and equipment used in
- 7 elementary and secondary schools, including summer
- 8 school, in teaching only those subjects legally and
- 9 commonly taught in public elementary and secondary
- 10 schools, including drivers education, in this state
- 11 and does not include instructional books and materials
- 12 used in the teaching of religious tenets, doctrines,
- 13 or worship, the purpose of which is to inculcate those
- 14 tenets, doctrines, or worship, and does not include
- 15 books or materials for extracurricular activities
- 16 including sporting events, musical or dramatic events,
- 17 speech activities, ~~driver's-education,~~ or programs of
- 18 a similar nature. Notwithstanding any other
- 19 provision, all other credits allowed under this
- 20 section and section 422.12B shall be deducted before
- 21 the tuition credit under this subsection. The
- 22 department, when conducting an audit of a taxpayer's
- 23 return, shall also audit the tuition tax credit
- 24 portion of the tax return.
- 25 As used in this subsection, "tuition" means any
- 26 charges for the expenses of personnel, buildings,
- 27 equipment and materials other than textbooks, summer
- 28 school tuition, drivers education instructional fees,
- 29 necessary school supplies, eye and ear protective
- 30 devices, transportation costs pursuant to section
- 31 285.5, and other expenses of elementary or secondary
- 32 schools which relate to the teaching only of those
- 33 subjects legally and commonly taught in public
- 34 elementary and secondary schools in this state and
- 35 which do not relate to the teaching of religious
- 36 tenets, doctrines, or worship, the purpose of which is
- 37 to inculcate those tenets, doctrines, or worship, and
- 38 which do not relate to extracurricular activities
- 39 including sporting events, musical or dramatic events,
- 40 speech activities, ~~driver's-education,~~ or programs of
- 41 a similar nature. However,".

By RICHARDSON of Warren

H-8385 FILED MARCH 12, 1998

Lost 4/2/98 (p. 1203)

HOUSE FILE 2513

H-8516

1 Amend House File 2513 as follows:

2 1. Page 9, by inserting after line 35 the
3 following:

4 "DIVISION
5 NET INCOME EXCLUSION AND CIGARETTE
6 TAX INCREASE

7 Sec. 100. Section 422.5, subsections 2 and 8, Code
8 Supplement 1997, are amended to read as follows:

9 2. However, the tax shall not be imposed on a
10 resident or nonresident whose net income, as defined
11 in section 422.7, is thirteen sixteen thousand five
12 eight hundred seventy-five dollars or less in the case
13 of married persons filing jointly or filing separately
14 on a combined return, unmarried heads of household,
15 and surviving spouses or nine eleven thousand two
16 hundred fifty dollars or less in the case of all other
17 persons; but in the event that the payment of tax
18 under this division would reduce the net income to
19 less than thirteen sixteen thousand five eight hundred
20 seventy-five dollars or nine eleven thousand two
21 hundred fifty dollars as applicable, then the tax
22 shall be reduced to that amount which would result in
23 allowing the taxpayer to retain a net income of
24 thirteen sixteen thousand five eight hundred seventy-
25 five dollars or nine eleven thousand two hundred fifty
26 dollars as applicable. The preceding sentence does
27 not apply to estates or trusts. For the purpose of
28 this subsection, the entire net income, including any
29 part of the net income not allocated to Iowa, shall be
30 taken into account. For purposes of this subsection,
31 net income includes all amounts of pensions or other
32 retirement income received from any source which is
33 not taxable under this division as a result of the
34 government pension exclusions in section 422.7, or any
35 other state law. If the combined net income of a
36 husband and wife exceeds thirteen sixteen thousand
37 five eight hundred seventy-five dollars, neither of
38 them shall receive the benefit of this subsection, and
39 it is immaterial whether they file a joint return or
40 separate returns. However, if a husband and wife file
41 separate returns and have a combined net income of
42 thirteen sixteen thousand five eight hundred seventy-
43 five dollars or less, neither spouse shall receive the
44 benefit of this paragraph, if one spouse has a net
45 operating loss and elects to carry back or carry
46 forward the loss as provided in section 422.9,
47 subsection 3. A person who is claimed as a dependent
48 by another person as defined in section 422.12 shall
49 not receive the benefit of this subsection if the
50 person claiming the dependent has net income exceeding

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1 thirteen sixteen thousand five eight hundred seventy-
2 five dollars or nine eleven thousand two hundred fifty
3 dollars as applicable or the person claiming the
4 dependent and the person's spouse have combined net
5 income exceeding thirteen sixteen thousand five eight
6 hundred seventy-five dollars or nine eleven thousand
7 two hundred fifty dollars as applicable.

8 In addition, if the married persons', filing
9 jointly or filing separately on a combined return,
10 unmarried head of household's, or surviving spouse's
11 net income exceeds thirteen sixteen thousand five
12 eight hundred seventy-five dollars, the regular tax
13 imposed under this division shall be the lesser of the
14 maximum state individual income tax rate times the
15 portion of the net income in excess of thirteen
16 sixteen thousand five eight hundred seventy-five
17 dollars or the regular tax liability computed without
18 regard to this sentence. Taxpayers electing to file
19 separately shall compute the alternate tax described
20 in this paragraph using the total net income of the
21 husband and wife. The alternate tax described in this
22 paragraph does not apply if one spouse elects to carry
23 back or carry forward the loss as provided in section
24 422.9, subsection 3.

25 8. In addition to the other taxes imposed by this
26 section, a tax is imposed on the amount of a lump sum
27 distribution for which the taxpayer has elected under
28 section 402(e) of the Internal Revenue Code to be
29 separately taxed for federal income tax purposes for
30 the tax year. The rate of tax is equal to twenty-five
31 percent of the separate federal tax imposed on the
32 amount of the lump sum distribution. A nonresident is
33 liable for this tax only on that portion of the lump
34 sum distribution allocable to Iowa. The total amount
35 of the lump sum distribution subject to separate
36 federal tax shall be included in net income for
37 purposes of determining eligibility under the thirteen
38 sixteen thousand five eight hundred seventy-five
39 dollar or less or nine eleven thousand two hundred
40 fifty dollar or less exclusion, as applicable.

41 Sec. _____. Section 453A.6, subsection 1, Code 1997,
42 is amended to read as follows:

43 1. There is imposed, and shall be collected and
44 paid to the department, the following taxes on all
45 cigarettes used or otherwise disposed of in this state
46 for any purpose whatsoever:

47 CLASS A. On cigarettes weighing not more than
48 three pounds per thousand, eighteen-mills three cents
49 on each such cigarette.

50 CLASS B. On cigarettes weighing more than three

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1 pounds per thousand, eighteen-mills three cents on
2 each such cigarette.

3 Sec. ____ . APPLICABILITY. Section 100 of this
4 division applies retroactively to January 1, 1998, for
5 tax years beginning on or after that date."

6 2. Title page, line 5, by inserting after the
7 word "credits," the following: "increasing the net
8 income exclusion amount,".

9 3. Title page, line 8, by inserting after the
10 word "taxes," the following: "relating to an increase
11 in the cigarette tax rate,".

By DODERER of Johnson
MASCHER of Johnson
CHAPMAN of Linn

KOENIGS of Mitchell
FALLON of Polk

H-8516 FILED MARCH 19, 1998

Not German 4/2/98
(P-1211)

HOUSE FILE 2513

H-8411

- 1 Amend House File 2513 as follows:
- 2 1. By striking page 1, line 2, through page 2,
- 3 line 8, and inserting the following:
- 4 "DEPENDENT CREDIT
- 5 Section 1. Section 422.12, subsection 1, paragraph
- 6 c, Code 1997, is amended to read as follows:
- 7 c. For each dependent, an additional forty seventy
- 8 dollars. As used in this section, the term
- 9 "dependent" has the same meaning as provided by the
- 10 Internal Revenue Code."
- 11 2. Title page, by striking lines 1 through 3 and
- 12 inserting the following: "An Act relating to the
- 13 individual income tax by increasing the dependent
- 14 credit,".
- 15 3. Title page, line 4, by striking the word
- 16 "descendants,".

By SHOULTZ of Black Hawk
 BERNAU of Story
 BUKTA of Clinton
 CHAPMAN of Linn
 CHIODO of Polk
 CONNORS of Polk
 DODERER of Johnson

DOTZLER of Black Hawk
 JOCHUM of Dubuque
 KOENIGS of Mitchell
 MORELAND of Wapello
 MYERS of Johnson
 SCHRADER of Marion
 TAYLOR of Linn

H-8411 FILED MARCH 16, 1998

Rest 4/2/98
(p. 1200)

HOUSE FILE 2513

H-8486

- 1 Amend House File 2513 as follows:
- 2 1. Page 4, by striking lines 8 and 9 and
- 3 inserting the following: "doctrines, or worship, and
- 4 does not include books or materials for
- 5 extracurricular".
- 6 2. Page 4, by striking line 26 and inserting the
- 7 following: "worship, and which do not".
- 8 3. Page 4, line 27, by striking the word "which".
- 9 4. Page 4, line 29, by striking the word
- 10 "However".
- 11 5. Page 4, by striking lines 30 through 32.

By RICHARDSON of Warren

H-8486 FILED MARCH 18, 1998

W/D 4/2/98
(p. 1201)

HOUSE FILE 2513

H-8814

1 Amend House File 2513 as follows:

2 1. Page 5, by inserting after line 9 the
3 following:

4 "DIVISION _____
5 HAGGE REFUND

6 Sec. _____. Section 422.73, Code 1997, is amended by
7 adding the following new subsection:

8 NEW SUBSECTION. 3. Notwithstanding subsection 2,
9 a claim for refund of individual income tax paid for
10 any tax year beginning on or after January 1, 1985,
11 and before January 1, 1989, is considered timely if
12 filed with the department on or before October 31,
13 1998, if the taxpayer's claim is the result of the
14 unconstitutional taxation of federal pension benefits
15 based upon the decision in Davis v. Michigan
16 Department of Treasury, 489 U.S. 803, 109 S. Ct. 1500
17 (1989).

18 A taxpayer entitled to a refund of tax paid under
19 this subsection shall receive an amount equal to one
20 hundred percent of the refund without interest. The
21 claim for refund shall be filed separate from any
22 income tax return and shall not be allowed as a credit
23 for income taxes owed. A claim shall be filed between
24 the effective date of this division of this Act and
25 October 31, 1998. An extension for filing shall not
26 be allowed and claims disallowed on the basis of
27 timeliness shall not be allowed upon appeal to any
28 other state agency notwithstanding any other provision
29 of law.

30 The claim for refund shall be made on claim forms
31 to be made available by the department. In order for
32 a taxpayer to have a valid refund claim, the taxpayer
33 must supply legible copies of documents the director
34 deems necessary to show entitlement to the refund,
35 including but not limited to income tax forms and W-2P
36 forms, which will establish the state income tax that
37 was paid on the federal pension benefits for the tax
38 years in question. The burden of proof is on the
39 taxpayer to show that the claim for refund is valid.
40 Estates are not entitled to file a claim for refund
41 under this subsection, except a spouse of a deceased
42 taxpayer who was the spouse of the taxpayer when the
43 unconstitutional tax was imposed may file a claim for
44 refund without reopening the deceased taxpayer's
45 estate. If a taxpayer has filed a claim under this
46 subsection and subsequently dies before receipt of the
47 refund, the taxpayer's estate is entitled to receipt
48 of any valid refund claim.

49 The department shall make a reasonable attempt to
50 notify individuals who are entitled to a refund under

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1 this subsection.

2 Sec. ____ . EFFECTIVE DATE. This division of this
3 Act, being deemed of immediate importance, takes
4 effect upon enactment."

5 2. Title page, line 5, by inserting after the
6 word "credits," the following: "allowing certain tax
7 refunds for income tax paid on federal pension
8 benefits,".

By MYERS of Johnson

H-8814 FILED MARCH 31, 1998

*Not Germane 4/2/98 p. 120
Motion to Suspend Rules - Lost*

HOUSE FILE 2513

H-8848

1 Amend House File 2513 as follows:

2 1. Page 8, by inserting after line 32 the
3 following:

4 "Sec. ____ . Section 425.40, Code Supplement 1997,
5 is amended by striking the section and inserting in
6 lieu thereof the following:

7 425.40 LOW-INCOME FUND CREATED -- APPROPRIATION.

8 The low-income tax credit and reimbursement fund is
9 created. There is appropriated annually from the
10 general fund of the state to the department of revenue
11 and finance to be credited to the low-income tax
12 credit and reimbursement fund, from funds not
13 otherwise appropriated, an amount sufficient to
14 implement this division for claimants described in
15 section 425.17, subsection 2, paragraph "b".

- | | |
|------------------------------|----------------------|
| By SHOULTZ of Black Hawk | OSTERHAUS of Jackson |
| HOLVECK of Polk | LARKIN of Lee |
| DOTZLER of Black Hawk | KOENIGS of Mitchell |
| REYNOLDS-KNIGHT of Van Buren | WISE of Lee |
| DODERER of Johnson | COHOON of Des Moines |
| MERTZ of Kossuth | BELL of Jasper |
| BERNAU of Story | MYERS of Johnson |
| KINZER of Scott | O'BRIEN of Boone |
| MASCHER of Johnson | MUNDIE of Webster |
| BUKTA of Clinton | SCHERRMAN of Dubuque |
| MAY of Worth | JOCHUM of Dubuque |
| WARNSTADT of Woodbury | TAYLOR of Linn |
| CONNORS of Polk | WEIGEL of Chickasaw |

H-8848 FILED APRIL 1, 1998

*Not Germane
Motion to Suspend Rules - Lost 4/2/98 (p. 1208)*

HOUSE FILE 2513

H-8849

1 Amend House File 2513 as follows:
2 1. By striking page 2, line 17, through page 3,
3 line 8, and inserting the following:
4 "34. For a person who is disabled, or is fifty-
5 five years of age or older, or is the surviving spouse
6 of an individual or a survivor having an insurable
7 interest in an individual who would have qualified for
8 the exemption under this subsection for the tax year,
9 subtract, to the extent included, the total amount of
10 a governmental or other pension or retirement pay,
11 including, but not limited to, defined benefit or
12 defined contribution plans, annuities, individual
13 retirement accounts, plans maintained or contributed
14 to by an employer, or maintained or contributed to by
15 a self-employed person as an employer, and deferred
16 compensation plans or any earnings attributable to the
17 deferred compensation plans, up to a maximum of ~~three~~
18 five thousand five hundred dollars for a person who
19 files a separate state income tax return and up to a
20 maximum of ~~six~~ eleven thousand dollars for a husband
21 and wife who file a joint state income tax return.
22 However, a surviving spouse who is not disabled or
23 fifty-five years of age or older can only exclude the
24 amount of pension or retirement pay received as a
25 result of the death of the other spouse."

By WEIGEL of Chickasaw

H-8849 FILED APRIL 1, 1998

Root 4/2/98
(P. 1201)

HOUSE FILE 2513

H-8865

1 Amend House File 2513 as follows:

2 1. Page 9, by inserting after line 35 the
3 following:

4 "DIVISION

5 MILITARY TAX EXEMPTION

6 Sec. _____. Section 25B.7, subsection 2, paragraph
7 c, Code Supplement 1997, is amended to read as
8 follows:

9 c. Military service property tax credit and
10 exemption pursuant to chapter 426A and sections 427.3
11 through 427.7, ~~to the extent of six dollars and~~
12 ~~seventy-five cents per thousand dollars of assessed~~
13 ~~value of the exempt property.~~

14 Sec. _____. Section 426A.2, Code 1997, is amended to
15 read as follows:

16 426A.2 MILITARY SERVICE TAX CREDIT.

17 The moneys shall be apportioned each year so as to
18 replace all ~~or a portion~~ of the tax which would be due
19 on property eligible for military service tax
20 exemption in the state, if the property were subject
21 to taxation, ~~the amount of the credit to be not more~~
22 ~~than six dollars and seventy-five cents per thousand~~
23 ~~dollars of assessed value of property which would be~~
24 ~~subject to the tax, except for the military service~~
25 ~~tax exemption.~~

26 Sec. _____. Section 426A.5, Code 1997, is amended to
27 read as follows:

28 426A.5 PROPORTIONATE SHARES TO DISTRICTS.

29 The amount of credits received under this chapter
30 shall then be apportioned by each county treasurer to
31 the several taxing districts in the same manner as
32 though the amount of the credit had been paid by the
33 owner of the property receiving the credit. Each
34 taxing district shall receive its proportionate share
35 of the military service tax credit allowed on each and
36 every tax exemption allowed in such the taxing
37 district, ~~in the proportion that the levy made by such~~
38 ~~taxing district upon general property bears to the~~
39 ~~total levy upon all property subject to general~~
40 ~~property taxation by all taxing districts imposing a~~
41 ~~general property tax in such taxing district based~~
42 upon the amount of property taxes which would be due
43 on the property receiving the credit, if the property
44 were subject to taxation.

45 Sec. _____. This division of this Act, being deemed
46 of immediate importance, takes effect upon enactment
47 and applies to the military service property tax
48 exemption allowed for property taxes due and payable
49 during fiscal years beginning on or after July 1,
50 1998."

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1 2. Page 10, by inserting before line 1 the
2 following:

3 "DIVISION

4 DEFINITION OF VETERAN FOR PROPERTY TAX EXEMPTION

5 Sec. ____ . Section 427.3, subsections 1 and 2, Code
6 1997, are amended to read as follows:

7 1. The property, not to exceed two thousand seven
8 hundred seventy-eight dollars in taxable value of any
9 honorably-discharged-soldier, sailor, marine, or nurse
10 veteran, as defined in subsection 3, of the first
11 World War.

12 2. The property, not to exceed one thousand eight
13 hundred fifty-two dollars in taxable value of an
14 honorably separated, retired, furloughed to a reserve,
15 placed on inactive status, or discharged ~~soldier~~
16 ~~sailor, marine, or nurse of the second World War from~~
17 ~~December 7, 1941, to December 31, 1946, army of~~
18 ~~occupation in Germany from November 12, 1918, to July~~
19 ~~11, 1923, American expeditionary forces in Siberia~~
20 ~~from November 12, 1918, to April 30, 1920, second~~
21 ~~Nicaraguan campaign with the navy or marines in~~
22 ~~Nicaragua or on combatant ships 1926-1933, second~~
23 ~~Haitian suppression of insurrections 1919-1920, navy~~
24 ~~and marine operations in China 1937-1939 and Yangtze~~
25 ~~service with navy and marines in Shanghai or in the~~
26 ~~Yangtze Valley 1926-1927 and 1930-1932 or of the~~
27 ~~Korean Conflict at any time between June 25, 1950, and~~
28 ~~January 31, 1955, both dates inclusive, or those who~~
29 ~~served on active duty during the Vietnam Conflict~~
30 ~~beginning December 22, 1961, and ending May 7, 1975,~~
31 ~~both dates inclusive, or those who served on active~~
32 ~~duty during the Persian Gulf Conflict at any time~~
33 ~~between August 2, 1990, and the date the president or~~
34 ~~the Congress of the United States declares a permanent~~
35 ~~cessation of hostilities, both dates inclusive~~
36 veteran, as defined in subsection 3. However, if
37 Congress enacts a date different from August 2, 1990,
38 as the beginning of the Persian Gulf Conflict for
39 purposes of determining whether a veteran is entitled
40 to receive military benefits as a veteran of the
41 Persian Gulf Conflict, that date shall be substituted
42 for August 2, 1990. For the purposes of this section,
43 "active duty" means full-time duty in the armed forces
44 of the United States, excluding active duty for
45 training purposes only and excluding any period a
46 person was assigned by the armed forces to a civilian
47 institution for a course of education or training
48 which was substantially the same as established
49 courses offered to civilians, or as a cadet or
50 midshipman, however enrolled, at one of the service

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Page 3

1 ~~academies:~~

2 Sec. ____ . Section 427.3, subsection 3, Code 1997,
3 is amended by striking the subsection and inserting
4 the following:

5 As used in sections 427.3 through 427.7, "veteran"
6 means a resident of this state who served in the armed
7 forces of the United States and who was discharged
8 under honorable conditions. "Veteran" includes the
9 following persons:

10 a. Former members of the reserve forces of the
11 United States who served at least six years in the
12 reserve forces after January 28, 1973, and who were
13 discharged under honorable conditions.

14 b. Former members of the Iowa national guard who
15 served at least six years in the Iowa national guard
16 after January 28, 1973, and who were discharged under
17 honorable conditions.

18 c. Former members of the active, oceangoing
19 merchant marines who served during World War II at any
20 time between December 7, 1941, and December 31, 1946,
21 both dates inclusive, who were discharged under
22 honorable conditions.

23 d. Former members of the women's air force service
24 pilots and other persons who have been conferred
25 veterans status based on their civilian duties during
26 World War II in accordance with federal Pub. L. No.
27 95-202, 38 U.S.C. § 106.

28 Sec. ____ . Section 427.4, Code 1997, is amended to
29 read as follows:

30 427.4 EXEMPTIONS TO RELATIVES.

31 In case any person in the foregoing classifications
32 does not claim ~~any-such~~ the exemption from taxation,
33 it shall be allowed in the name of ~~such~~ the person to
34 the same extent on the property of any one of the
35 following persons in the order named:

36 1. The spouse, or surviving spouse remaining
37 unmarried, of ~~any-such-soldier, sailor, marine, or~~
38 nurse a veteran, as defined in section 427.3, where
39 they are living together or were living together at
40 the time of the death of such-person the veteran.

41 2. The parent whose spouse is deceased and who
42 remains unmarried, of ~~any-such-soldier, sailor,~~
43 marine, or nurse a veteran, as defined in section
44 427.3, whether living or deceased, where such the
45 parent is, or was at the time of death of the soldier,
46 sailor, marine, or nurse veteran, dependent on such
47 person the veteran for support.

48 3. The minor child, or children owning property as
49 tenants in common, of ~~any-such~~ a deceased soldier,
50 sailor, marine, or nurse veteran, as defined in

H-8865

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H-8865

Page 4

1 section 427.3.

2 No more than one tax exemption shall be allowed
3 under this section or section 427.3 in the name of any
4 ~~honorably-discharged-soldier, sailor, marine, or nurse~~
5 a veteran, as defined in section 427.3.

6 Sec. _____. This division of this Act, being deemed
7 of immediate importance, takes effect upon enactment
8 and applies to the military service property tax
9 exemption allowed for property taxes due and payable
10 during fiscal years beginning on or after July 1,
11 1998."

12 3. Title page, line 11, by inserting after the
13 word "paid," the following: "and increasing state
14 reimbursement for the military tax exemption,".

15 4. Title page, line 11, by inserting before the
16 words "and including" the following: "and expanding
17 the definition of veteran for purposes of the military
18 tax exemption,".

By JOCHUM of Dubuque
WITT of Black Hawk
DOTZLER of Black Hawk
REYNOLDS-KNIGHT of Van Buren
MERTZ of Kossuth
FALCK of Fayette
MURPHY of Dubuque
KINZER of Scott
WHITEAD of Woodbury
BURNETT of Story
THOMAS of Clayton
FOEGE of Linn
SCHERRMAN of Dubuque

MYERS of Johnson
FORD of Polk
CATALDO of Polk
O'BRIEN of Boone
LARKIN of Lee
MUNDIE of Webster
COHOON of Des Moines
OSTERHAUS of Jackson
TAYLOR of Linn
FREVERT of Palo Alto
WARNSTADT of Woodbury
BERNAU of Story
WEIGEL of Chickasaw

H-8865 FILED APRIL 1, 1998

Not germane - motion to suspend Rules Court
4-2-98 (p. 1216)

HOUSE FILE 2513

H-8880

1 Amend House File 2513 as follows:

2 1. Page 1, line 27, by striking the words ", "c",
3 and "d"" and inserting the following: "and "c"".4 2. Page 1, by inserting after line 35 the
5 following:6 "Sec. ____ . Section 422.7, subsection 21, paragraph
7 d, Code Supplement 1997, is amended by striking the
8 paragraph."

By WITT of Black Hawk

H-8880 FILED APRIL 2, 1998

Rest 4/2/98 (P. 1217)

1 Amend the amendment, H-8385, to House File 2513, as
2 follows:
3 1. Page 1, line 2, by striking the figure "29"
4 and inserting the following: "32".
5 2. Page 1, line 41, by striking the word
6 "However,".

By GRUNDBERG of Polk

H-8877 FILED APRIL 2, 1998

Adopted 4/2/98 (P. 1203)

HOUSE FILE 2513

H-8879

1 Amend House File 2513 as follows:
2 1. Page 2, line 17, by inserting before the word
3 "For" the following: "a."
4 2. Page 2, line 29, by striking the words "three
5 five" and inserting the following: "three".
6 3. Page 2, line 31, by striking the words "six
7 ten" and inserting the following: "six".
8 4. Page 2, line 33, by striking the words
9 "However, a" and inserting the following: "However, a
10 the maximum amount specified in this paragraph may be
11 increased as provided in paragraph "b". A".
12 5. Page 3, by inserting after line 8 the
13 following:
14 "b. For purposes of this paragraph, "net income"
15 means the net income computed under this section prior
16 to any deduction under this subsection. The maximum
17 amount specified in paragraph "a" may be increased by
18 three thousand dollars for single filers and six
19 thousand dollars for joint filers. Single filers with
20 net incomes of thirty-four thousand dollars or less
21 and joint filers with forty-four thousand dollars or
22 less may receive one hundred percent of the three
23 thousand dollar increase or six thousand dollar
24 increase, respectively. For each additional one
25 thousand dollars, or portion thereof, of net income,
26 the percentage of the appropriate dollar increase
27 specified in this paragraph allowed as a deduction
28 shall be reduced by five percent."

By BERNAU of Story

H-8879 FILED APRIL 2, 1998

(P. 1218) Lost 4-2-98

HOUSE FILE 2513

H-8875

1 Amend House File 2513 as follows:
2 1. Page 4, line 29, by striking the word
3 "However,".
4 2. Page 4, by striking lines 30 through 32.

By GRUNDBERG of Polk

H-8875 FILED APRIL 2, 1998

Adopted 4/2/98 (P. 1202)

HOUSE FILE 2513

H-8876

1 Amend the amendment, H-8293, to House File 2513 as
2 follows:
3 1. Page 1, line 49, by inserting after the figure
4 "152C" the following: "if such services are
5 prescribed by a licensed physician".

By CHAPMAN of Linn
DODERER of Johnson

H-8876 FILED APRIL 2, 1998

Adopted 4/2/98 (P. 1205)

2-1101/8
S. 4/14/98 Do Pass

HOUSE FILE 2513
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 637)

(As Amended and Passed by the House, April 2, 1998)

Passed House, Date _____ Passed Senate, ^(p. 1291) Date 4/15/98
Vote: Ayes _____ Nays _____ Vote: Ayes 44 Nays 5
Approved May 6, 1998

A BILL FOR

1 An Act relating to the individual income tax by eliminating the
2 taxation of certain capital gains and providing special
3 treatment of gains from the sales of businesses to
4 descendants, increasing the amount of pension income excluded,
5 increasing certain personal exemption tax credits, and
6 increasing and expanding the tuition and textbook tax credit,
7 exempting sales and services to certain nonprofit hospitals
8 from the sales, services, and use taxes, and relating to the
9 income eligibility requirements for the homestead property tax
10 credit, mobile home tax credit, or reimbursement for rent
11 constituting property taxes paid, and including effective and
12 prospective and retroactive applicability date provisions.

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

14
15
16
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Deleted Language *

1 DIVISION I

2 CAPITAL GAINS

3 Section 1. Section 422.7, subsection 21, unnumbered
4 paragraph 1, Code Supplement 1997, is amended to read as
5 follows:

6 Subtract ~~forty-five-percent-of~~ the net capital gain from
7 the following:

8 Sec. 2. Section 422.7, subsection 21, paragraph a, Code
9 Supplement 1997, is amended to read as follows:

10 a. (1) Net capital gain from the sale of real property
11 used in a business, in which the taxpayer materially
12 participated for ten years, as defined in section 469(h) of
13 the Internal Revenue Code, and which has been held for a
14 minimum of ten years, or from the sale of a business, as
15 defined in section 422.42, in which the taxpayer was employed
16 or in which the taxpayer materially participated for ten
17 years, as defined in section 469(h) of the Internal Revenue
18 Code, and which has been held for a minimum of ten years. The
19 sale of a business means the sale of all or substantially all
20 of the tangible personal property or service of the business.

21 However, where the business is sold to individuals who are
22 all lineal descendants of the taxpayer, the taxpayer does not
23 have to have materially participated in the business in order
24 for the net capital gain from the sale to be excluded from
25 taxation.

26 However, in lieu of the net capital gain deduction in this
27 paragraph and paragraphs "b", "c", and "d", where the business
28 is sold to individuals who are all lineal descendants of the
29 taxpayer, the amount of capital gain from each capital asset
30 may be subtracted in determining net income.

31 (2) For purposes of this paragraph, "lineal descendant"
32 means children of the taxpayer, including legally adopted
33 children and biological children, stepchildren, grandchildren,
34 great-grandchildren, and any other lineal descendants of the
35 taxpayer.

1 Sec. 3. Section 422.7, subsection 21, unnumbered paragraph
2 2, Code Supplement 1997, is amended by striking the unnumbered
3 paragraph and inserting in lieu thereof the following:

4 However, to the extent otherwise allowed, the deduction
5 provided in this subsection is not allowed for purposes of
6 computation of a net operating loss in section 422.9,
7 subsection 3, and in computing the income for the taxable year
8 or years for which a net operating loss is deducted.

9 Sec. 4. EFFECTIVE AND APPLICABILITY DATES. This division
10 of this Act, being deemed of immediate importance, takes
11 effect upon enactment and applies retroactively to January 1,
12 1998, for tax years beginning on or after that date.

13 DIVISION II

14 PENSION INCOME EXCLUSION

15 Sec. 5. Section 422.7, subsection 34, Code Supplement
16 1997, is amended to read as follows:

17 34. For a person who is disabled, or is fifty-five years
18 of age or older, or is the surviving spouse of an individual
19 or a survivor having an insurable interest in an individual
20 who would have qualified for the exemption under this
21 subsection for the tax year, subtract, to the extent included,
22 the total amount of a governmental or other pension or
23 retirement pay, including, but not limited to, defined benefit
24 or defined contribution plans, annuities, individual
25 retirement accounts, plans maintained or contributed to by an
26 employer, or maintained or contributed to by a self-employed
27 person as an employer, and deferred compensation plans or any
28 earnings attributable to the deferred compensation plans, up
29 to a maximum of three five thousand dollars for a person,
30 other than a husband or wife, who files a separate state
31 income tax return and up to a maximum of six ten thousand
32 dollars for a husband and wife who file a joint state income
33 tax return. However, a surviving spouse who is not disabled
34 or fifty-five years of age or older can only exclude the
35 amount of pension or retirement pay received as a result of

1 the death of the other spouse. A husband and wife filing
2 separate state income tax returns or separately on a combined
3 state return are allowed a combined maximum exclusion under
4 this subsection of up to ten thousand dollars. The ten
5 thousand dollar exclusion shall be allocated to the husband or
6 wife in the proportion that each spouse's respective pension
7 and retirement pay received bears to total combined pension
8 and retirement pay received.

9 Sec. 6. This division of this Act, being deemed of
10 immediate importance, takes effect upon enactment and applies
11 retroactively to January 1, 1998, for tax years beginning on
12 or after that date.

13 DIVISION III

14 PERSONAL EXEMPTION CREDIT

15 Sec. 7. Section 422.12, subsection 1, paragraphs a and b,
16 Code 1997, is amended to read as follows:

- 17 a. For an estate or trust, a single individual, or a
18 married person filing a separate return, twenty forty dollars.
19 b. For a head of household, or a husband and wife filing a
20 joint return, forty eighty dollars.

21 Sec. 8. This division of this Act applies retroactively to
22 January 1, 1998, for tax years beginning on or after that
23 date.

24 DIVISION IV

25 TUITION TAX CREDIT

26 Sec. 9. Section 422.12, subsection 2, Code 1997, is
27 amended to read as follows:

- 28 2. A tuition credit equal to ~~ten~~ twenty-five percent of
29 the first one thousand dollars which the taxpayer has paid to
30 others for each dependent in grades kindergarten through
31 twelve, for tuition and textbooks of each dependent in
32 attending an elementary or secondary school situated in Iowa,
33 which school is accredited or approved under section 256.11,
34 which is not operated for profit, and which adheres to the
35 provisions of the federal Civil Rights Act of 1964 and chapter

1 216. As used in this subsection, "textbooks" means books and
2 other instructional materials and equipment used in elementary
3 and secondary schools in teaching only those subjects legally
4 and commonly taught in public elementary and secondary schools
5 in this state and does not include instructional books and
6 materials used in the teaching of religious tenets, doctrines,
7 or worship, the purpose of which is to inculcate those tenets,
8 doctrines, or worship, ~~and does not include.~~ "Textbooks"
9 includes books or materials used for extracurricular
10 activities including sporting events, musical or dramatic
11 events, speech activities, driver's education, or programs of
12 a similar nature. Notwithstanding any other provision, all
13 other credits allowed under this section and section 422.12B
14 shall be deducted before the tuition credit under this
15 subsection. The department, when conducting an audit of a
16 taxpayer's return, shall also audit the tuition tax credit
17 portion of the tax return.

18 As used in this subsection, "tuition" means any charges for
19 the expenses of personnel, buildings, equipment and materials
20 other than textbooks, and other expenses of elementary or
21 secondary schools which relate to the teaching only of those
22 subjects legally and commonly taught in public elementary and
23 secondary schools in this state and which do not relate to the
24 teaching of religious tenets, doctrines, or worship, the
25 purpose of which is to inculcate those tenets, doctrines, or
26 worship, ~~and which do not.~~ "Tuition" includes those expenses
27 which relate to extracurricular activities including sporting
28 events, musical or dramatic events, speech activities,
29 driver's education, or programs of a similar nature.

30 Sec. 10. This division of this Act applies retroactively
31 to January 1, 1998, for tax years beginning on or after that
32 date.

33 DIVISION V

34 EXEMPTION FOR NONPROFIT HOSPITALS

35 Sec. 11. Section 422.45, Code 1997, is amended by adding

1 the following new subsection:

2 NEW SUBSECTION. 52. The gross receipts from the sale or
 3 rental of tangible personal property or from services
 4 performed, rendered, or furnished to a nonprofit hospital
 5 licensed pursuant to chapter 135B to be used in the operation
 6 of the hospital.

7 DIVISION VI
 8 HOMESTEAD CREDIT, RENT REIMBURSEMENT, AND
 9 MOBILE HOME TAX CREDIT

10 Sec. 12. Section 425.23, subsection 1, Code 1997, is
 11 amended to read as follows:

12 1. a. The tentative credit or reimbursement for a
 13 claimant described in section 425.17, subsection 2, paragraph
 14 "a" and paragraph "b" if no appropriation is made to the fund
 15 created in section 425.40 shall be determined in accordance
 16 with the following schedule:

	Percent of property taxes due or rent constituting property taxes paid
20 If the household	allowed as a credit or
21 income is:	reimbursement:

22 \$-----0-----5,999.99.....	100%
23 --6,000-----6,999.99.....	85
24 --7,000-----7,999.99.....	70
25 --8,000-----9,999.99.....	50
26 -10,000----11,999.99.....	35
27 -12,000----13,999.99.....	25
28 \$ 0 -- 8,499.99	100%
29 8,500 -- 9,499.99	85
30 9,500 -- 10,499.99	70
31 10,500 -- 12,499.99	50
32 12,500 -- 14,499.99	35
33 14,500 -- 16,499.99	25

34 b. If moneys have been appropriated to the fund created in
 35 section 425.40, the tentative credit or reimbursement for a

1	--6,000-----6,999.99.....	42
2	--7,000-----7,999.99.....	35
3	--8,000-----9,999.99.....	25
4	--10,000----11,999.99.....	17
5	--12,000----13,999.99.....	12
6	\$ 0 -- 8,499.99	50%
7	8,500 -- 9,499.99	42
8	9,500 -- 10,499.99	35
9	10,500 -- 12,499.99	25
10	12,500 -- 14,499.99	17
11	14,500 -- 16,499.99	12

12 Sec. 13. Section 425.23, subsection 3, paragraph a, Code
 13 1997, is amended to read as follows:

14 a. A person who is eligible to file a claim for credit for
 15 property taxes due and who has a household income of six eight
 16 thousand five hundred dollars or less and who has an unpaid
 17 special assessment levied against the homestead may file a
 18 claim for a special assessment credit with the county
 19 treasurer. The department shall provide to the respective
 20 treasurers the forms necessary for the administration of this
 21 subsection. The claim shall be filed not later than September
 22 30 of each year. Upon the filing of the claim, interest for
 23 late payment shall not accrue against the amount of the unpaid
 24 special assessment due and payable. The claim filed by the
 25 claimant constitutes a claim for credit of an amount equal to
 26 the actual amount due upon the unpaid special assessment, plus
 27 interest, payable during the fiscal year for which the claim
 28 is filed against the homestead of the claimant. However,
 29 where the claimant is an individual described in section
 30 425.17, subsection 2, paragraph "b", and the tentative credit
 31 is determined according to the schedule in ~~section-425-23,~~
 32 subsection 1, paragraph "b", subparagraph (2), of this
 33 section, the claim filed constitutes a claim for credit of an
 34 amount equal to one-half of the actual amount due and payable
 35 during the fiscal year. The treasurer shall certify to the

1 director of revenue and finance not later than October 15 of
2 each year the total amount of dollars due for claims allowed.
3 The amount of reimbursement due each county shall be paid by
4 the director of revenue and finance by November 15 of each
5 year, drawn upon warrants payable to the respective treasurer.
6 There is appropriated annually from the general fund of the
7 state to the department of revenue and finance an amount
8 sufficient to carry out the provisions of this subsection.
9 The treasurer shall credit any moneys received from the
10 department against the amount of the unpaid special assessment
11 due and payable on the homestead of the claimant.

12 Sec. 14. Section 425.23, Code 1997, is amended by adding
13 the following new subsection:

14 NEW SUBSECTION. 4. a. For the base year beginning in the
15 1999 calendar year and for each subsequent base year, the
16 dollar amounts set forth in subsections 1 and 3 shall be
17 multiplied by the cumulative adjustment factor for that base
18 year. "Cumulative adjustment factor" means the product of the
19 annual adjustment factor for the 1998 base year and all annual
20 adjustment factors for subsequent base years. The cumulative
21 adjustment factor applies to the base year beginning in the
22 calendar year for which the latest annual adjustment factor
23 has been determined.

24 b. The annual adjustment factor for the 1998 base year is
25 one hundred percent. For each subsequent base year, the
26 annual adjustment factor equals the annual inflation factor
27 for the calendar year, in which the base year begins, as
28 computed in section 422.4 for purposes of the individual
29 income tax.

30 Sec. 15. Section 435.22, subsection 2, Code 1997, is
31 amended to read as follows:

32 2. If the owner of the home is an Iowa resident, has
33 attained the age of twenty-three years on or before December
34 31 of the base year, and has an income when included with that
35 of a spouse which is less than six eight thousand five hundred

1 dollars per year, the annual tax shall not be imposed on the
2 home. If the income is six eight thousand five hundred
3 dollars or more but less than fourteen sixteen thousand five
4 hundred dollars, the annual tax shall be computed as follows:

5	If the Household	Annual Tax Per
6	Income is:	Square Foot:
7	---\$-6,000-----6,999.99-----	3.0-cents
8	-----7,000-----7,999.99-----	6.0
9	-----8,000-----9,999.99-----	10.0
10	-----10,000-----11,999.99-----	13.0
11	-----12,000-----13,999.99-----	15.0
12	<u>\$ 8,500 -- 9,499.99</u>	<u>3.0 cents</u>
13	<u>9,500 -- 10,499.99</u>	<u>6.0</u>
14	<u>10,500 -- 12,499.99</u>	<u>10.0</u>
15	<u>12,500 -- 14,499.99</u>	<u>13.0</u>
16	<u>14,500 -- 16,499.99</u>	<u>15.0</u>

17 For purposes of this subsection "income" means income as
18 defined in section 425.17, subsection 7, and "base year" means
19 the calendar year preceding the year in which the claim for a
20 reduced rate of tax is filed. The home reduced rate of tax
21 shall only be allowed on the home in which the claimant is
22 residing at the time in which the claim for a reduced rate of
23 tax is filed.

24 Beginning with the 1998 base year, the income dollar
25 amounts set forth in this subsection shall be multiplied by
26 the cumulative adjustment factor for that base year as
27 determined in section 425.23, subsection 4.

28 Sec. 16. APPLICABILITY. This division of this Act applies
29 to claims for credit for property taxes due, claims for
30 reimbursement for rent constituting property taxes paid, and
31 claims for credit for mobile home taxes due filed on or after
32 January 1, 1999.

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HOUSE FILE 2513

S-5642

1 Amend House File 2513, as amended, passed, and
 2 reprinted by the House, as follows:
 3 1. Page 2, line 17, by inserting before the word
 4 "For" the following: "a."
 5 2. Page 2, line 29, by striking the words "three
 6 five" and inserting the following: "three".
 7 3. Page 2, line 31, by striking the words "~~six~~
 8 ten" and inserting the following: "six".
 9 4. Page 2, line 33, by striking the words
 10 "However, a" and inserting the following: "However, a
 11 the maximum amount specified in this paragraph may be
 12 increased as provided in paragraph "b". A".
 13 5. Page 3, lines 4 and 5, by striking the words
 14 "ten thousand dollars. The ten thousand dollar" and
 15 inserting the following: "the maximum amount for
 16 joint filers. This maximum amount".
 17 6. Page 3, by inserting after line 8 the
 18 following:
 19 "b. For purposes of this paragraph, "net income"
 20 means the net income computed under this section prior
 21 to any deduction under this subsection. The maximum
 22 amount specified in paragraph "a" may be increased by
 23 three thousand dollars for single filers and six
 24 thousand dollars for joint filers. Single filers with
 25 net incomes of thirty-four thousand dollars or less
 26 and joint filers with forty-four thousand dollars or
 27 less may receive one hundred percent of the three
 28 thousand dollar increase or six thousand dollar
 29 increase, respectively. For each additional one
 30 thousand dollars, or portion thereof, of net income,
 31 the percentage of the appropriate dollar increase
 32 specified in this paragraph allowed as a deduction
 33 shall be reduced by five percent."

By WILLIAM D. PALMER

S-5642 FILED APRIL 14, 1998

(p.1287) Last 4/15/98

HOUSE FILE 2513

S-5646

1 Amend House File 2513, as amended, passed, and
 2 reprinted by the House, as follows:
 3 1. Page 4, line 34, by inserting after the word
 4 "HOSPITALS" the following: "AND NURSING FACILITIES".
 5 2. Page 5, line 6, by inserting after the word
 6 "hospital" the following: "or to a nonprofit nursing
 7 facility licensed pursuant to chapter 135C to be used
 8 in the operation of the nursing facility".
 9 3. Title page, line 7, by inserting after the
 10 word "hospitals" the following: "and nursing
 11 facilities".

By MIKE CONNOLLY

S-5646 FILED APRIL 14, 1998

*o/order
4-15-98 (p.1290)*

HOUSE FILE 2513

S-5647

- 1 Amend House File 2513, as amended, passed, and
- 2 reprinted by the House, as follows:
- 3 1. Page 2, line 29, by striking the word "five"
- 4 and inserting the following: "six".
- 5 2. Page 2, line 31, by striking the word "ten"
- 6 and inserting the following: "twelve".
- 7 3. Page 3, by striking line 4 and inserting the
- 8 following: "this subsection of up to twelve thousand
- 9 dollars. The twelve".

By MIKE CONNOLLY

S-5647 FILED APRIL 14, 1998

Lost
4-15-98
(p. 1289)

HOUSE FILE 2513

S-5684

1 Amend House File 2513, as amended, passed, and
2 reprinted by the House, as follows:

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

5 "DIVISION I -- PERCENTAGE OF FEDERAL TAX LIABILITY

6 Section 1. Section 422.4, subsection 1, Code
7 Supplement 1997, is amended by striking the subsection
8 and inserting in lieu thereof the following:

9 1. "Adjusted federal income tax liability" means
10 the amount of federal income tax liability, as
11 determined under the Internal Revenue Code, subtitle
12 A, chapter 1, subchapter A, parts I (regular tax) and
13 VI (alternative minimum tax), and subchapter D, part I
14 (lump sum distribution tax), for which the taxpayer
15 would have been liable, reduced by any federal income
16 tax credits that may apply, if the taxpayer had paid
17 federal income tax based on federal taxable income
18 adjusted as provided in section 422.7, subsections 1
19 and 2.

20 Sec. 2. Section 422.4, subsection 2, Code
21 Supplement 1997, is amended by striking the
22 subsection.

23 Sec. 3. Section 422.4, Code Supplement 1997, is
24 amended by adding the following new subsection:

25 NEW SUBSECTION. 9A. "Net income" means the
26 federal taxable income as properly computed for
27 federal income tax purposes under the Internal Revenue
28 Code with the adjustments made in section 422.7,
29 subsections 1 and 2.

30 Sec. 4. Section 422.4, subsection 16, Code
31 Supplement 1997, is amended by striking the
32 subsection.

33 Sec. 5. Section 422.5, subsection 1, Code
34 Supplement 1997, is amended by striking the subsection
35 and inserting in lieu thereof the following:

36 1. a. A tax is imposed upon every resident and
37 nonresident individual or estate and trust, which tax
38 is levied and shall be collected and paid annually
39 upon and with respect to net income at the rate of
40 twenty-six and thirty-five hundredths percent of the
41 taxpayer's adjusted federal income tax liability.

42 b. However, the tax imposed upon the income of a
43 nonresident shall be computed by multiplying the
44 amount of tax determined under paragraph "a" by a
45 fraction of which the nonresident's net income
46 allocated to Iowa, as determined in section 422.8,
47 subsection 2, is the numerator and the nonresident's
48 total net income is the denominator. This provision
49 also applies to individuals who are residents of Iowa
50 for less than the entire tax year.

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S-5684

Page 2

1 c. The tax imposed upon the net income of a
2 resident shareholder in an S corporation which has in
3 effect for the tax year an election under subchapter S
4 of the Internal Revenue Code and carries on business
5 within and without the state may be computed by
6 reducing the amount determined pursuant to paragraph
7 "a" by multiplying the amount by a fraction of which
8 the resident's net income allocated to Iowa, as
9 determined in section 422.8, subsection 2, paragraph
10 "b", is the numerator and the resident's total net
11 income is the denominator. This provision also
12 applies to individuals who are residents of Iowa for
13 less than the entire tax year.

14 This lettered paragraph shall not affect the amount
15 of the taxpayer's checkoff to the Iowa election
16 campaign fund under section 56.18, and the checkoff
17 for the fish and game fund in section 456A.16.

18 Sec. 6. Section 422.5, subsection 2, unnumbered
19 paragraph 1, Code Supplement 1997, is amended to read
20 as follows:

21 However, the tax shall not be imposed on a resident
22 or nonresident whose net income, ~~as defined in section~~
23 ~~422.7,~~ is thirteen thousand five hundred dollars or
24 less in the case of married persons filing jointly or
25 ~~filing separately on a combined return,~~ unmarried
26 heads of household, and surviving spouses or nine
27 thousand dollars or less in the case of all other
28 persons, ~~but in the event that.~~ If the payment of tax
29 under this division would reduce the net income of a
30 resident or nonresident to less than thirteen thousand
31 five hundred dollars or nine thousand dollars as
32 applicable, then the tax shall be reduced to that
33 amount which would result in allowing the taxpayer to
34 retain a net income of thirteen thousand five hundred
35 dollars or nine thousand dollars as applicable. The
36 preceding ~~sentence does~~ sentences do not apply to
37 estates or trusts. For the purpose of this
38 subsection, the entire net income, including any part
39 of the net income not allocated to Iowa, shall be
40 taken into account. For purposes of this subsection,
41 ~~net income~~ "net income" includes all amounts of
42 pensions or other retirement income received from any
43 source which is not taxable under this division as a
44 result of the ~~government pension exclusions in section~~
45 ~~422.7,~~ or any other state law. If the combined net
46 income of a husband and wife exceeds thirteen thousand
47 five hundred dollars, neither of them shall receive
48 the benefit of this subsection, and it is immaterial
49 whether they file a joint return or separate returns.
50 However, if a husband and wife file separate returns

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Page 3

1 and have a combined net income of thirteen thousand
2 five hundred dollars or less, neither spouse shall
3 receive the benefit of this paragraph, if one spouse
4 has a net operating loss and elects to carry back or
5 carry forward the loss as provided in ~~section-422-9,~~
6 ~~subsection-3~~ the Internal Revenue Code. A person who
7 is claimed as a dependent, as defined in the Internal
8 Revenue Code, by another person ~~as-defined-in-section~~
9 ~~422-12~~ shall not receive the benefit of this
10 subsection if the person claiming the dependent has
11 net income exceeding thirteen thousand five hundred
12 dollars or nine thousand dollars as applicable or the
13 person claiming the dependent and the person's spouse
14 have combined net income exceeding thirteen thousand
15 five hundred dollars or nine thousand dollars as
16 applicable.

17 Sec. 7. Section 422.5, subsection 2, unnumbered
18 paragraph 2, Code Supplement 1997, is amended by
19 striking the unnumbered paragraph.

20 Sec. 8. Section 422.5, subsections 3 through 12,
21 Code Supplement 1997, are amended by striking the
22 subsections.

23 Sec. 9. Section 422.6, Code Supplement 1997, is
24 amended by striking the section and inserting in lieu
25 thereof the following:

26 422.6 INCOME FROM ESTATES OR TRUSTS.

27 The tax imposed by section 422.5 applies to and is
28 a charge against estates and trusts with respect to
29 their net income, and the rate is the same as that
30 applicable to individuals. The fiduciary shall make
31 the return of income for the estate or trust for which
32 the fiduciary acts, whether the income is taxable to
33 the estate or trust or to the beneficiaries.

34 Sec. 10. Section 422.7, Code Supplement 1997, is
35 amended by striking the section and inserting in lieu
36 thereof the following:

37 422.7 ADJUSTMENTS TO FEDERAL TAXABLE INCOME.

38 In determining the taxpayer's adjusted federal
39 income tax liability, the taxpayer's federal taxable
40 income shall be adjusted as provided in subsections 1
41 and 2.

42 1. Federal taxable income is increased by the
43 following:

44 a. Interest and dividends from foreign securities
45 and from securities of states and other political
46 subdivisions exempt from federal income tax under the
47 Internal Revenue Code to the extent not otherwise
48 exempted by this state.

49 b. Interest and dividends from regulated
50 investment companies exempt from federal income tax

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1 under the Internal Revenue Code.

2 2. Federal taxable income is decreased by the
3 following:

4 a. Interest and dividends from federal securities.

5 The amount decreased shall be reduced by any interest
6 on indebtedness incurred to carry the federal
7 securities and by any expenses incurred in the
8 production of interest and dividends from the federal
9 securities to the extent deductible in determining
10 federal taxable income.

11 b. The loss on the sale or exchange of a share of
12 a regulated investment company held for six months or
13 less to the extent the loss was disallowed under
14 section 852(b)(4)(B) of the Internal Revenue Code.

15 Sec. 11. Section 422.8, subsections 2, 3, and 4,
16 Code Supplement 1997, are amended to read as follows:

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

48 b. A resident's income allocable to Iowa is the
49 net income determined under section 422-7 reduced by
50 items of income and expenses from an S corporation

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1 that carries on business within and without the state
2 when those items of income and expenses pass directly
3 to the shareholders under provisions of the Internal
4 Revenue Code. These items of income and expenses are
5 increased by the greater of the following:

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

9 (2) Any cash or the value of property
10 distributions which are made only to the extent that
11 they are paid from income upon which Iowa income tax
12 has not been paid, as determined under rules of the
13 director, reduced by fifty percent of the amount of
14 any of these distributions that are made to enable the
15 shareholder to pay federal income tax on items of
16 income, loss, and expenses from the corporation.

17 3. Taxable Net income of resident and nonresident
18 estates and trusts shall be allocated in the same
19 manner as individuals.

20 4. The amount of minimum tax paid to another state
21 or foreign country by a resident taxpayer of this
22 state from preference items derived from sources
23 outside of Iowa shall be allowed as a credit against
24 the tax computed under this division except that the
25 credit shall not exceed what the product of the state
26 tax rate times the amount of state the federal
27 alternative minimum tax would-have-been on the same
28 preference items which were taxed by the other state
29 or foreign country. The limitation on this credit
30 shall be computed according to the following formula:
31 The total of preference items earned outside of Iowa
32 and taxed by another state or foreign country shall be
33 divided by the total of preference items of the
34 resident taxpayer of Iowa. ~~In computing this~~
35 ~~quotient, those items excludable under section 422.57~~
36 ~~subsection 1, paragraph "k", subparagraph (1) shall~~
37 ~~not be used in computing the preference items. This~~
38 ~~quotient multiplied times by the net-state federal~~
39 ~~alternative minimum tax as determined in section~~
40 ~~422.57, subsection 1, paragraph "k" on the total of~~
41 ~~preference items as if entirely earned in Iowa~~
42 ~~multiplied by the state tax rate shall be the maximum~~
43 ~~tax credit against the Iowa alternative minimum tax.~~
44 However, the maximum tax credit ~~will~~ shall not be
45 allowed to the extent that the minimum tax imposed by
46 the other state or foreign country is less than the
47 maximum tax credit otherwise computed above.

48 Sec. 12. Section 422.13, subsection 1, unnumbered
49 paragraph 1, Code 1997, is amended to read as follows:

50 ~~Except as provided in subsection 1A, a~~ A resident

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1 or nonresident of this state shall make a return,
2 signed in accordance with forms and rules prescribed
3 by the director, if any of the following are
4 applicable:

5 Sec. 13. Section 422.13, subsection 1A, Code 1997,
6 is amended by striking the subsection.

7 Sec. 14. Section 422.14, subsection 1, Code 1997,
8 is amended to read as follows:

9 1. A fiduciary subject to taxation under this
10 division, as provided in section 422.6, shall make a
11 return, signed in accordance with forms and rules
12 prescribed by the director, for the individual,
13 estate, or trust for whom or for which the fiduciary
14 acts, if the taxable net income thereof amounts to six
15 hundred dollars or more. A nonresident fiduciary
16 shall file a copy of the federal income tax return for
17 the current tax year with the return required by this
18 section.

19 Sec. 15. Section 422.16, subsection 1, unnumbered
20 paragraph 1, Code 1997, is amended to read as follows:

21 Every withholding agent and every employer as
22 defined in this chapter and further defined in the
23 Internal Revenue Code, with respect to income tax
24 collected at source, making payment of wages to a
25 nonresident employee working in Iowa, or to a resident
26 employee, shall deduct and withhold from the wages an
27 amount which will approximate the employee's annual
28 tax liability on a calendar year basis, calculated on
29 the basis of tables to be prepared by the department
30 and schedules or percentage rates, based on the wages,
31 to be prescribed by the department. Every employee or
32 other person shall declare to the employer or
33 withholding agent the number of the employee's or
34 other person's personal exemptions and dependency
35 exemptions or credits to be used in applying the
36 tables and schedules or percentage rates. However, no
37 greater number of personal or dependency exemptions or
38 credits may be declared by the employee or other
39 person than the number to which the employee or other
40 person is entitled except as allowed under section
41 3402(m)(1) of the Internal Revenue Code ~~and-as-allowed~~
42 ~~for-the-child-and-dependent-care-credit-provided-in~~
43 ~~section-422-12C~~. The claiming of exemptions or
44 credits in excess of entitlement is a serious
45 misdemeanor.

46 Sec. 16. Section 422.21, unnumbered paragraphs 5
47 and 6, Code 1997, are amended by striking the
48 unnumbered paragraphs.

49 Sec. 17. Section 422.21, unnumbered paragraph 7,
50 Code 1997, is amended to read as follows:

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1 If married taxpayers file a joint return or file
2 ~~separately on a combined return in accordance with~~
3 ~~rules prescribed by the director~~, both spouses are
4 jointly and severally liable for the total tax due on
5 the return, except when one spouse is considered to be
6 an innocent spouse under criteria established pursuant
7 to section 6013(e) of the Internal Revenue Code.

8 Sec. 18. Sections 422.11A, 422.11B, 422.12, and
9 422.12B, Code 1997, are repealed.

10 Sec. 19. Sections 422.9, 422.10, and 422.12C, Code
11 Supplement 1997, are repealed.

12 DIVISION II -- COORDINATING AMENDMENTS

13 Sec. 20. Section 56.2, subsection 19, Code 1997,
14 is amended to read as follows:

15 19. "State income tax liability" means the state
16 individual income tax imposed under section 422.5
17 ~~reduced by the sum of the deductions from the computed~~
18 ~~tax as provided under section 422.12.~~

19 Sec. 21. Section 96.3, subsection 4, Code
20 Supplement 1997, is amended to read as follows:

21 4. DETERMINATION OF BENEFITS. With respect to
22 benefit years beginning on or after July 1, 1983, an
23 eligible individual's weekly benefit amount for a week
24 of total unemployment shall be an amount equal to the
25 following fractions of the individual's total wages in
26 insured work paid during that quarter of the
27 individual's base period in which such total wages
28 were highest; the director shall determine annually a
29 maximum weekly benefit amount equal to the following
30 percentages, to vary with the number of dependents, of
31 the statewide average weekly wage paid to employees in
32 insured work which shall be effective the first day of
33 the first full week in July:

34 If the	The weekly	Subject to the
35 number of	benefit amount	following maxi-
36 dependents	shall equal the	mum percentage
37 is:	following frac-	of the statewide
38	tion of high	average weekly
39	quarter wages:	wage:
40 0	1/23	53%
41 1	1/22	55%
42 2	1/21	57%
43 3	1/20	60%
44 4 or more	1/19	65%

45 The maximum weekly benefit amount, if not a multiple
46 of one dollar shall be rounded to the lower multiple
47 of one dollar. However, until such time as sixty-five
48 percent of the statewide average weekly wage exceeds
49 one hundred ninety dollars, the maximum weekly benefit
50 amounts shall be determined using the statewide

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

11 Sec. 22. Section 216B.3, subsection 15, Code 1997,
12 is amended to read as follows:

13 15. Develop a plan to provide telephone yellow
14 pages information without charge to persons declared
15 to be blind ~~under the standards in section-422.127,~~
16 ~~subsection-17-paragraph-"e"~~. The department may apply
17 for federal funds to support the service. The program
18 shall be limited in scope by the availability of
19 funds. For the purposes of this subsection, an
20 individual is blind only if the individual's central
21 visual acuity does not exceed twenty-two hundredths in
22 the better eye with correcting lenses, or if the
23 individual's visual acuity is greater than twenty-two
24 hundredths but is accompanied by a limitation in the
25 fields of vision such that the widest diameter of the
26 visual field subtends an angle no greater than twenty
27 degrees.

28 Sec. 23. Section 257.21, unnumbered paragraph 2,
29 Code Supplement 1997, is amended to read as follows:

30 The instructional support income surtax shall be
31 imposed on the state individual income tax for the
32 calendar year during which the school's budget year
33 begins, or for a taxpayer's fiscal year ending during
34 the second half of that calendar year and after the
35 date the board adopts a resolution to participate in
36 the program or the first half of the succeeding
37 calendar year, and shall be imposed on all individuals
38 residing in the school district on the last day of the
39 applicable tax year. As used in this section, "state
40 individual income tax" means the taxes computed under
41 ~~section 422.57-less-the-credits-allowed-in-sections~~
42 ~~422.11A, 422.11B, 422.127, and 422.12B.~~

43 Sec. 24. Section 421.17, subsection 21, paragraph
44 b, subparagraph (6), Code Supplement 1997, is amended
45 to read as follows:

46 (6) Upon the request of a debtor or a debtor's
47 spouse to the child support recovery unit, the foster
48 care recovery unit, or the investigations division of
49 the department of inspections and appeals, filed
50 within fifteen days from the mailing of the notice of

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1 entitlement to a refund or rebate, and upon receipt of
2 the full name and social security number of the
3 debtor's spouse, the unit or division shall notify the
4 department of revenue and finance of the request to
5 divide a joint income tax refund or rebate. The
6 department of revenue and finance shall upon receipt
7 of the notice divide a joint income tax refund or
8 rebate between the debtor and the debtor's spouse in
9 proportion to each spouse's net income as ~~determined~~
10 ~~under-section-422-7~~ defined in section 422.4.

11 Sec. 25. Section 421.17, subsection 23, paragraph
12 f, Code Supplement 1997, is amended to read as
13 follows:

14 f. Upon the timely request of a defaulter or a
15 defaulter's spouse to the college student aid
16 commission and upon receipt of the full name and
17 social security number of the defaulter's spouse, the
18 commission shall notify the department of revenue and
19 finance of the request to divide a joint income tax
20 refund or rebate. The department of revenue and
21 finance shall upon receipt of the notice divide a
22 joint income tax refund or rebate between the
23 defaulter and the defaulter's spouse in proportion to
24 each spouse's net income as ~~determined-under-section~~
25 ~~422-7~~ defined in section 422.4.

26 Sec. 26. Section 421.17, subsection 25, paragraph
27 e, Code Supplement 1997, is amended to read as
28 follows:

29 e. Upon the request of a debtor or a debtor's
30 spouse to the department, filed within fifteen days
31 from the mailing of the notice of entitlement to a
32 refund or rebate, and upon receipt of the full name
33 and social security number of the debtor's spouse, the
34 department shall divide a joint income tax refund or
35 rebate between the debtor and the debtor's spouse in
36 proportion to each spouse's net income as ~~determined~~
37 ~~under-section-422-7~~ defined in section 422.4.

38 Sec. 27. Section 422.32, unnumbered paragraph 2,
39 Code Supplement 1997, is amended to read as follows:

40 The words, terms, and phrases defined in division
41 II, section 422.4, subsections 4 to 6, 8, 9, 13, and
42 15 to, and 17, when used in this division, shall have
43 the meanings ascribed to them in said section except
44 where the context clearly indicates a different
45 meaning.

46 Sec. 28. Section 422D.2, Code Supplement 1997, is
47 amended to read as follows:

48 422D.2 LOCAL INCOME SURTAX.

49 A county may impose by ordinance a local income
50 surtax as provided in section 422D.1 at the rate set

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1 by the board of supervisors, of up to one percent, on
2 the state individual income tax of each individual
3 residing in the county at the end of the individual's
4 applicable tax year. However, the cumulative total of
5 the percents of income surtax imposed on any taxpayer
6 in the county shall not exceed twenty percent. The
7 reason for imposing the surtax and the amount needed
8 shall be set out in the ordinance. The surtax rate
9 shall be set to raise only the amount needed. For
10 purposes of this section, "state individual income
11 tax" means the tax computed under section 422.5, less
12 ~~the credits allowed in sections 422.11A, 422.11B,~~
13 ~~422.12, and 422.12B.~~

14 Sec. 29. Section 425.17, subsection 7, Code 1997,
15 is amended to read as follows:

16 7. "Income" means the sum of Iowa net income as
17 defined in section ~~422.7~~ 422.4, plus all of the
18 following to the extent not already included in Iowa
19 net income: capital gains, alimony, child support
20 money, cash public assistance and relief, except
21 property tax relief granted under this division,
22 amount of in-kind assistance for housing expenses, the
23 gross amount of any pension or annuity, including but
24 not limited to railroad retirement benefits, payments
25 received under the federal Social Security Act, except
26 child insurance benefits received by a member of the
27 claimant's household, and all military retirement and
28 veterans' disability pensions, interest received from
29 the state or federal government or any of its
30 instrumentalities, workers' compensation and the gross
31 amount of disability income or "loss of time"
32 insurance. "Income" does not include gifts from
33 nongovernmental sources, or surplus foods or other
34 relief in kind supplied by a governmental agency. In
35 determining income, net operating losses and net
36 capital losses shall not be considered.

37 Sec. 30. Section 450.4, subsection 5, Code 1997,
38 is amended to read as follows:

39 5. On the value of that portion of installment
40 payments which will be includable as net income as
41 defined in section ~~422.7~~ 422.4 as received by a
42 beneficiary under an annuity which was purchased under
43 an employees pension or retirement plan.

44 Sec. 31. Section 476.6, subsection 1, unnumbered
45 paragraph 2, Code 1997, is amended to read as follows:

46 A subscriber of a telephone exchange or service,
47 who is declared to be legally blind ~~under section~~
48 ~~422.12, subsection 1, paragraph "e",~~ is exempt from
49 any charges for telephone directory assistance that
50 may be approved by the board. For the purposes of

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1 this paragraph, an individual is legally blind only if
2 the individual's central visual acuity does not exceed
3 twenty-two hundredths in the better eye with
4 correcting lenses, or if the individual's visual
5 acuity is greater than twenty-two hundredths but is
6 accompanied by a limitation in the fields of vision
7 such that the widest diameter of the visual field
8 subtends an angle no greater than twenty degrees.

9 Sec. 32. Section 541A.2, subsection 7, unnumbered
10 paragraph 1, Code Supplement 1997, is amended to read
11 as follows:

12 An individual development account closed in
13 accordance with this subsection is not subject to the
14 limitations and benefits provided by this chapter but
15 is subject to state tax in accordance with the
16 provisions of ~~section 422.77-subsection 287~~ and
17 section 450.4, subsection 6. An individual
18 development account may be closed for any of the
19 following reasons:

20 Sec. 33. Section 541A.3, subsection 2, Code 1997,
21 is amended by striking the subsection.

22 DIVISION III -- EFFECTIVE AND APPLICABILITY DATE
23 PROVISIONS

24 Sec. 34. This Act takes effect January 1, 1999,
25 and applies to tax years beginning on or after January
26 1, 1999."

27 2. Title page, by striking lines 1 through 12 and
28 inserting the following: "An Act relating to making
29 the state individual income tax a percent of the
30 federal income tax liability with certain adjustments
31 and including effective and applicability date
32 provisions."

By ROBERT E. DVORSKY
JOHNIE HAMMOND
DENNIS H. BLACK
ROD HALVORSON
MATT McCOY

TOM FLYNN
BILL FINK
MIKE CONNOLLY
ELAINE SZYMONIAK
MARY NEUHAUSER

S-5684 FILED APRIL 15, 1998
RULED OUT OF ORDER

(P. 1287)

HOUSE FILE 2513

S-5683

1 Amend House File 2513, as amended, passed, and
2 reprinted by the House, as follows:

3 1. Page 4, line 34, by inserting after the word
4 "HOSPITALS" the following: "AND MASSAGE THERAPISTS".

5 2. Page 4, by inserting after line 34 the
6 following:

7 "Sec. ____ . Section 422.43, subsection 11,
8 unnumbered paragraph 1, Code Supplement 1997, is
9 amended to read as follows:

10 The following enumerated services are subject to
11 the tax imposed on gross taxable services: alteration
12 and garment repair; armored car; vehicle repair;
13 battery, tire, and allied; investment counseling;
14 service charges of all financial institutions; barber
15 and beauty; boat repair; vehicle wash and wax;
16 carpentry; roof, shingle, and glass repair; dance
17 schools and dance studios; dating services; dry
18 cleaning, pressing, dyeing, and laundering; electrical
19 and electronic repair and installation; rental of
20 tangible personal property, except mobile homes which
21 are tangible personal property; excavating and
22 grading; farm implement repair of all kinds; flying
23 service; furniture, rug, upholstery repair and
24 cleaning; fur storage and repair; golf and country
25 clubs and all commercial recreation; house and
26 building moving; household appliance, television, and
27 radio repair; jewelry and watch repair; limousine
28 service, including driver; machine operator; machine
29 repair of all kinds; motor repair; motorcycle,
30 scooter, and bicycle repair; oilers and lubricators;
31 office and business machine repair; painting,
32 papering, and interior decorating; parking facilities;
33 pipe fitting and plumbing; wood preparation; licensed
34 executive search agencies; private employment
35 agencies, excluding services for placing a person in
36 employment where the principal place of employment of
37 that person is to be located outside of the state;
38 sewage services for nonresidential commercial
39 operations; sewing and stitching; shoe repair and
40 shoeshine; sign construction and installation; storage
41 of household goods, mini-storage, and warehousing of
42 raw agricultural products; swimming pool cleaning and
43 maintenance; taxidermy services; telephone answering
44 service; test laboratories, including mobile testing
45 laboratories and field testing by testing
46 laboratories, and excluding tests on humans or
47 animals; termite, bug, roach, and pest eradicators;
48 tin and sheet metal repair; turkish baths, massage,
49 and reducing salons, excluding services provided by
50 massage therapists licensed under chapter 152C;

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1 weighing; welding; well drilling; wrapping, packing,
2 and packaging of merchandise other than processed
3 meat, fish, fowl and vegetables; wrecking service;
4 wrecker and towing; pay television; campgrounds;
5 carpet and upholstery cleaning; gun and camera repair;
6 janitorial and building maintenance or cleaning; lawn
7 care, landscaping and tree trimming and removal; pet
8 grooming; reflexology; security and detective
9 services; tanning beds or salons; and water
10 conditioning and softening."

11 3. Title page, line 7, by inserting after the
12 word "hospitals" the following: "and services
13 provided by licensed massage therapists".

14 4. By renumbering as necessary.

By ELAINE SZYMONIAK
JOHNIE HAMMOND
MARY NEUHAUSER

ROBERT E. DVORSKY
DENNIS H. BLACK
PATRICK J. DELUHERY

S-5683 FILED APRIL 15, 1998

WITHDRAWN

(P. 1290)

HOUSE FILE 2513

S-5682

1 Amend House File 2513, as amended, passed, and
 2 reprinted by the House, as follows:

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

5 "DIVISION
 6 RATE REDUCTION

7 Section 1. Section 422.5, subsection 1, paragraphs
 8 a through i, Code Supplement 1997, are amended to read
 9 as follows:

10 a. On all taxable income from zero through one
 11 thousand dollars, thirty-six thirty-four hundredths of
 12 one percent.

13 b. On all taxable income exceeding one thousand
 14 dollars but not exceeding two thousand dollars,
 15 seventy-two sixty-eight hundredths of one percent.

16 c. On all taxable income exceeding two thousand
 17 dollars but not exceeding four thousand dollars, two
 18 and forty-three thirty-one hundredths percent.

19 d. On all taxable income exceeding four thousand
 20 dollars but not exceeding nine thousand dollars, four
 21 and one-half twenty-eight hundredths percent.

22 e. On all taxable income exceeding nine thousand
 23 dollars but not exceeding fifteen thousand dollars,
 24 six five and twelve eighty-one hundredths percent.

25 f. On all taxable income exceeding fifteen
 26 thousand dollars but not exceeding twenty thousand
 27 dollars, six and forty-eight sixteen hundredths
 28 percent.

29 g. On all taxable income exceeding twenty thousand
 30 dollars but not exceeding thirty thousand dollars, six
 31 and eight-tenths forty-six hundredths percent.

32 h. On all taxable income exceeding thirty thousand
 33 dollars but not exceeding forty-five thousand dollars,
 34 seven and ninety-two fifty-two hundredths percent.

35 i. On all taxable income exceeding forty-five
 36 thousand dollars, eight and ninety-eight fifty-three
 37 hundredths percent.

38 Sec. _____. This division of this Act applies to tax
 39 years beginning on or after January 1, 1999."

40 2. Title page, line 1, by inserting after the
 41 word "by" the following: "reducing the income tax
 42 rates,".

43 3. By renumbering as necessary.

By STEVEN D. HANSEN

S-5682 FILED APRIL 15, 1998
 RULED OUT OF ORDER

(p. 1287)

HOUSE FILE 2513

S-5694

1 Amend House File 2513, as amended, passed, and
2 reprinted by the House, as follows:
3 1. By striking page 2, line 28, through page 3,
4 line 8, and inserting the following: "earnings
5 attributable to the deferred compensation plans, up to
6 a maximum of three thousand dollars for a person who
7 files a separate state income tax return and up to a
8 maximum of six thousand dollars for a husband and wife
9 who file a joint state income tax return. However, a
10 surviving spouse who is not disabled or fifty-five
11 years of age or older can only exclude the amount of
12 pension or retirement pay received as a result of the
13 death of the other spouse."

By PATRICK J. DELUHERY
EUGENE S. FRAISE
STEVEN D. HANSEN
ROD HALVORSON
TOM FLYNN
ROBERT E. DVORSKY
WALLY E. HORN

DENNIS H. BLACK
MICHAEL E. GRONSTAL
BILL FINK
MATT McCOY
DON GETTINGS
TOM VILSACK

S-5694 FILED APRIL 15, 1998

LOST

(P. 1288)

HOUSE FILE 2513

S-5685

1 Amend House File 2513, as amended, passed, and
2 reprinted by the House, as follows:
3 1. Page 4, by striking line 34 and inserting the
4 following: "EXEMPTION FROM GROSS RECEIPTS TAXES".
5 2. Page 5, by inserting after line 6 the
6 following:
7 "Sec. 151. Section 422.45, Code Supplement 1997,
8 is amended by adding the following new subsection:
9 NEW SUBSECTION. 52. The gross receipts from the
10 sale, furnishing, or service of gas and electricity
11 for residential dwellings and units of apartment
12 complexes used for human occupancy.
13 Sec. . APPLICABILITY DATE. Section 151 of this
14 division of this Act applies to the sale, furnishing,
15 or service of gas or electricity if the date of
16 billing the customer is on or after July 1, 1998."
17 3. Title page, line 7, by inserting after the
18 word "hospitals" the following: "and of gas and
19 electricity for residential dwellings".
By ROBERT E. DVORSKY ROD HALVORSON
JOHNIE HAMMOND DENNIS H. BLACK
DICK L. DEARDEN PATTY JUDGE
BILL FINK EUGENE S. FRAISE
MIKE CONNOLLY ELAINE SZYMONIAK
MICHAEL E. GRONSTAL TOM FLYNN
PATRICIA HARPER MARY NEUHAUSER
STEVEN D. HANSEN

S-5685 FILED APRIL 15, 1998
RULED OUT OF ORDER

(p. 1290)

HOUSE FILE 2513

S-5696

1 Amend House File 2513, as amended, passed, and
 2 reprinted by the House, as follows:
 3 1. Page 8, by inserting after line 29 the
 4 following:
 5 "Sec. _____. Section 425.40, Code Supplement 1997,
 6 is amended by striking the section and inserting in
 7 lieu thereof the following:
 8 425.40 LOW-INCOME FUND CREATED -- APPROPRIATION.
 9 The low-income tax credit and reimbursement fund is
 10 created. There is appropriated annually from the
 11 general fund of the state to the department of revenue
 12 and finance to be credited to the low-income tax
 13 credit and reimbursement fund, from funds not
 14 otherwise appropriated, an amount sufficient to
 15 implement this division for claimants described in
 16 section 425.17, subsection 2, paragraph "b"."

By MICHAEL E. GRONSTAL

S-5696 FILED APRIL 15, 1998

LOST (P. 1291)

HOUSE FILE 2513

S-5697

1 Amend House File 2513, as amended, passed, and
 2 reprinted by the House, as follows:
 3 1. Page 3, line 14, by inserting after the word
 4 "PERSONAL" the following: "AND DEPENDENT".
 5 2. Page 3, by inserting after line 20 the
 6 following:
 7 "Sec. _____. Section 422.12, subsection 1, paragraph
 8 c, Code 1997, is amended to read as follows:
 9 c. For each dependent, an additional forty seventy
 10 dollars. As used in this section, the term
 11 "dependent" has the same meaning as provided by the
 12 Internal Revenue Code."

By MARY NEUHAUSER
 ELAINE SZYMONIAK
 ROBERT E. DVORSKY
 JOHNIE HAMMOND
 PATRICIA HARPER

PATRICK J. DELUHERY
 MATT McCOY
 BILL FINK
 MIKE CONNOLLY
 STEVEN D. HANSEN

S-5697 FILED APRIL 15, 1998

LOST (P. 1290)

HOUSE FILE 2513

S-5695

1 Amend House File 2513, as amended, passed, and
2 reprinted by the House, as follows:

3 1. Page 4, by inserting after line 32 the
4 following:

5 "DIVISION _____
6 HOPE SCHOLARSHIP CREDIT
7 Sec. ____ . NEW SECTION. 422.12F HOPE SCHOLARSHIP
8 CREDIT.

9 1. The taxes imposed under this division, less the
10 credits allowed under sections 422.12 and 422.12B,
11 shall be reduced by a hope scholarship credit equal to
12 twenty-five percent of the federal hope scholarship
13 credit provided in section 25A of the Internal Revenue
14 Code. Any credit in excess of the tax liability is
15 nonrefundable.

16 2. Married taxpayers who have filed joint federal
17 returns electing to file separate returns or to file
18 separately on a combined return form must determine
19 the hope scholarship credit under subsection I based
20 upon their combined net income and allocate the total
21 credit amount to each spouse in the proportion that
22 each spouse's respective net income bears to the total
23 combined net income. Nonresidents or part-year
24 residents of Iowa must determine their hope
25 scholarship credit in the ratio of their Iowa source
26 net income to their all source net income.
27 Nonresidents or part-year residents who are married
28 and elect to file separate returns or to file
29 separately on a combined return form must allocate the
30 hope scholarship credit between the spouses in the
31 ratio of each spouse's Iowa source net income to the
32 combined Iowa source net income of the taxpayers.

33 Sec. ____ . This division of this Act, being deemed
34 of immediate importance, takes effect upon enactment
35 and applies retroactively to January 1, 1998, for tax
36 years beginning on or after that date."

37 2. Title page, line 5, by inserting after the
38 word "credits," the following: "providing a hope
39 scholarship credit,".

By PATRICK J. DELUHERY
BILL FINK
EUGENE S. FRAISE
WILLIAM D. PALMER
MIKE CONNOLLY
WALLY E. HORN
JOHN P. KIBBIE
ROBERT E. DVORSKY
TOM VILSACK

DON GETTINGS
MATT MCCOY
TOM FLYNN
DICK L. DEARDEN
DENNIS H. BLACK
PATRICIA HARPER
MARY NEUHAUSER
ELAINE SZYMONIAK
MICHAEL E. GRONSTAL

S-5695 FILED APRIL 15, 1998
RULED OUT OF ORDER

(p. 1290)

GREIG, CHAIR
BLODGETT
JENKINS
SHOULTZ
WEIGEL

HSB 637
WAYS AND MEANS

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON DINKLA)

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

A BILL FOR

1 An Act relating to the individual income tax by eliminating the
2 taxation of certain capital gains and providing special
3 treatment of gains from the sales of businesses to
4 descendants, increasing the amount of pension income excluded,
5 increasing certain personal exemption tax credits, and
6 increasing and expanding the tuition and textbook tax credit,
7 exempting sales and services to privately owned or operated
8 hospitals from the sales, services, and use taxes, and
9 relating to the income eligibility requirements for the
10 homestead property tax credit, mobile home tax credit, or
11 reimbursement for rent constituting property taxes paid, and
12 including effective and prospective and retroactive
13 applicability date provisions.

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

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DIVISION I

CAPITAL GAINS

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Section 1. Section 422.7, subsection 21, unnumbered paragraph 1, Code Supplement 1997, is amended to read as follows:

Subtract ~~forty-five-percent-of~~ the net capital gain from the following:

Sec. 2. Section 422.7, subsection 21, paragraph a, Code Supplement 1997, is amended to read as follows:

a. Net capital gain from the sale of real property used in a business, in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years, or from the sale of a business, as defined in section 422.42, in which the taxpayer was employed or in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business.

However, where the business is sold to individuals who are all lineal descendants of the taxpayer, the taxpayer does not have to have materially participated in the business in order for the net capital gain from the sale to be excluded from taxation.

However, in lieu of the net capital gain deduction in this paragraph and paragraphs "b", "c", and "d", where the business is sold to individuals who are all lineal descendants of the taxpayer, the amount of capital gain from each capital asset may be subtracted in determining net income.

For purposes of this paragraph, "lineal descendant" means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendants of the taxpayer.

1 Sec. 6. This division of this Act, being deemed of
2 immediate importance, takes effect upon enactment and applies
3 retroactively to January 1, 1998, for tax years beginning on
4 or after that date.

5 DIVISION III

6 PERSONAL EXEMPTION CREDIT

7 Sec. 7. Section 422.12, subsection 1, paragraphs a and b,
8 Code 1997, is amended to read as follows:

9 a. For an estate or trust, a single individual, or a
10 married person filing a separate return, twenty forty dollars.

11 b. For a head of household, or a husband and wife filing a
12 joint return, forty eighty dollars.

13 Sec. 8. This division of this Act applies retroactively to
14 January 1, 1998, for tax years beginning on or after that
15 date.

16 DIVISION IV

17 TUITION TAX CREDIT

18 Sec. 9. Section 422.12, subsection 2, Code 1997, is
19 amended to read as follows:

20 2. A tuition credit equal to ~~ten~~ twenty-five percent of
21 the first one thousand dollars which the taxpayer has paid to
22 others for each dependent in grades kindergarten through
23 twelve, for tuition and textbooks of each dependent in
24 attending an elementary or secondary school situated in Iowa,
25 which school is accredited or approved under section 256.11,
26 which is not operated for profit, and which adheres to the
27 provisions of the federal Civil Rights Act of 1964 and chapter
28 216. As used in this subsection, "textbooks" means books and
29 other instructional materials and equipment used in elementary
30 and secondary schools in teaching only those subjects legally
31 and commonly taught in public elementary and secondary schools
32 in this state and does not include instructional books and
33 materials used in the teaching of religious tenets, doctrines,
34 or worship, the purpose of which is to inculcate those tenets,
35 doctrines, or worship, ~~and does not include.~~ "Textbooks"

1 includes books or materials used for extracurricular
2 activities including sporting events, musical or dramatic
3 events, speech activities, driver's education, or programs of
4 a similar nature. Notwithstanding any other provision, all
5 other credits allowed under this section and section 422.12B
6 shall be deducted before the tuition credit under this
7 subsection. The department, when conducting an audit of a
8 taxpayer's return, shall also audit the tuition tax credit
9 portion of the tax return.

10 As used in this subsection, "tuition" means any charges for
11 the expenses of personnel, buildings, equipment and materials
12 other than textbooks, and other expenses of elementary or
13 secondary schools which relate to the teaching only of those
14 subjects legally and commonly taught in public elementary and
15 secondary schools in this state and which do not relate to the
16 teaching of religious tenets, doctrines, or worship, the
17 purpose of which is to inculcate those tenets, doctrines, or
18 worship, ~~and which do not~~. "Tuition" includes those expenses
19 which relate to extracurricular activities including sporting
20 events, musical or dramatic events, speech activities,
21 driver's education, or programs of a similar nature.

22 Sec. 10. This division of this Act applies retroactively
23 to January 1, 1998, for tax years beginning on or after that
24 date.

25 DIVISION V
26 EXEMPTION FOR PRIVATELY OWNED OR OPERATED
27 HOSPITALS

28 Sec. 11. Section 422.45, Code 1997, is amended by adding
29 the following new subsection:

30 NEW SUBSECTION. 52. The gross receipts from the sale or
31 rental of tangible personal property or from services
32 performed, rendered, or furnished to a privately owned or
33 operated hospital.

34 DIVISION VI
35 HOMESTEAD CREDIT, RENT REIMBURSEMENT, AND

MOBILE HOME TAX CREDIT

Sec. 12. Section 425.23, subsection 1, Code 1997, is amended to read as follows:

1. a. The tentative credit or reimbursement for a claimant described in section 425.17, subsection 2, paragraph "a" and paragraph "b" if no appropriation is made to the fund created in section 425.40 shall be determined in accordance with the following schedule:

If the household income is:	Percent of property taxes due or rent constituting property taxes paid allowed as a credit or reimbursement:
\$-----0-----5,999.99.....	100%
--6,000-----6,999.99.....	85
--7,000-----7,999.99.....	70
--8,000-----9,999.99.....	50
-10,000-----11,999.99.....	35
-12,000-----13,999.99.....	25
<u>\$ 0 -- 8,499.99</u>	<u>100%</u>
<u>8,500 -- 9,499.99</u>	<u>85</u>
<u>9,500 -- 10,499.99</u>	<u>70</u>
<u>10,500 -- 12,499.99</u>	<u>50</u>
<u>12,500 -- 14,499.99</u>	<u>35</u>
<u>14,500 -- 16,499.99</u>	<u>25</u>

b. If moneys have been appropriated to the fund created in section 425.40, the tentative credit or reimbursement for a claimant described in section 425.17, subsection 2, paragraph "b", shall be determined as follows:

(1) If the amount appropriated under section 425.40 plus any supplemental appropriation made for a fiscal year for purposes of this lettered paragraph is at least twenty-seven million dollars, the tentative credit or reimbursement shall be determined in accordance with the following schedule:

Percent of property taxes

1 due or rent constituting
 2 property taxes paid
 3 If the household allowed as a credit or
 4 income is: reimbursement:

5	\$-----0-----5,999.99.....	100%
6	--6,000-----6,999.99.....	85
7	--7,000-----7,999.99.....	70
8	--8,000-----9,999.99.....	50
9	-10,000-----11,999.99.....	35
10	-12,000-----13,999.99.....	25
11	<u>\$ 0 -- 8,499.99</u>	<u>100%</u>
12	<u>8,500 -- 9,499.99</u>	<u>85</u>
13	<u>9,500 -- 10,499.99</u>	<u>70</u>
14	<u>10,500 -- 12,499.99</u>	<u>50</u>
15	<u>12,500 -- 14,499.99</u>	<u>35</u>
16	<u>14,500 -- 16,499.99</u>	<u>25</u>

17 (2) If the amount appropriated under section 425.40 plus
 18 any supplemental appropriation made for a fiscal year for
 19 purposes of this lettered paragraph is less than twenty-seven
 20 million dollars the tentative credit or reimbursement shall be
 21 determined in accordance with the following schedule:

22 Percent of property taxes
 23 due or rent constituting
 24 property taxes paid
 25 If the household allowed as a credit or
 26 income is: reimbursement:

27	\$-----0-----5,999.99.....	50%
28	--6,000-----6,999.99.....	42
29	--7,000-----7,999.99.....	35
30	--8,000-----9,999.99.....	25
31	-10,000-----11,999.99.....	17
32	-12,000-----13,999.99.....	12
33	<u>\$ 0 -- 8,499.99</u>	<u>50%</u>
34	<u>8,500 -- 9,499.99</u>	<u>42</u>
35	<u>9,500 -- 10,499.99</u>	<u>35</u>

1	<u>10,500 -- 12,499.99</u>	<u>25</u>
2	<u>12,500 -- 14,499.99</u>	<u>17</u>
3	<u>14,500 -- 16,499.99</u>	<u>12</u>

4 Sec. 13. Section 425.23, subsection 3, paragraph a, Code
5 1997, is amended to read as follows:

6 a. A person who is eligible to file a claim for credit for
7 property taxes due and who has a household income of ~~six~~ eight
8 thousand five hundred dollars or less and who has an unpaid
9 special assessment levied against the homestead may file a
10 claim for a special assessment credit with the county
11 treasurer. The department shall provide to the respective
12 treasurers the forms necessary for the administration of this
13 subsection. The claim shall be filed not later than September
14 30 of each year. Upon the filing of the claim, interest for
15 late payment shall not accrue against the amount of the unpaid
16 special assessment due and payable. The claim filed by the
17 claimant constitutes a claim for credit of an amount equal to
18 the actual amount due upon the unpaid special assessment, plus
19 interest, payable during the fiscal year for which the claim
20 is filed against the homestead of the claimant. However,
21 where the claimant is an individual described in section
22 425.17, subsection 2, paragraph "b", and the tentative credit
23 is determined according to the schedule in ~~section-425-23,~~
24 subsection 1, paragraph "b", subparagraph (2), of this
25 section, the claim filed constitutes a claim for credit of an
26 amount equal to one-half of the actual amount due and payable
27 during the fiscal year. The treasurer shall certify to the
28 director of revenue and finance not later than October 15 of
29 each year the total amount of dollars due for claims allowed.
30 The amount of reimbursement due each county shall be paid by
31 the director of revenue and finance by November 15 of each
32 year, drawn upon warrants payable to the respective treasurer.
33 There is appropriated annually from the general fund of the
34 state to the department of revenue and finance an amount
35 sufficient to carry out the provisions of this subsection.

1 The treasurer shall credit any moneys received from the
2 department against the amount of the unpaid special assessment
3 due and payable on the homestead of the claimant.

4 Sec. 14. Section 425.23, Code 1997, is amended by adding
5 the following new subsection:

6 NEW SUBSECTION. 4. a. For the base year beginning in the
7 1999 calendar year and for each subsequent base year, the
8 dollar amounts set forth in subsections 1 and 3 shall be
9 multiplied by the cumulative adjustment factor for that base
10 year. "Cumulative adjustment factor" means the product of the
11 annual adjustment factor for the 1998 base year and all annual
12 adjustment factors for subsequent base years. The cumulative
13 adjustment factor applies to the base year beginning in the
14 calendar year for which the latest annual adjustment factor
15 has been determined.

16 b. The annual adjustment factor for the 1998 base year is
17 one hundred percent. For each subsequent base year, the
18 annual adjustment factor equals the annual inflation factor
19 for the calendar year, in which the base year begins, as
20 computed in section 422.4 for purposes of the individual
21 income tax.

22 Sec. 15. Section 435.22, subsection 2, Code 1997, is
23 amended to read as follows:

24 2. If the owner of the home is an Iowa resident, has
25 attained the age of twenty-three years on or before December
26 31 of the base year, and has an income when included with that
27 of a spouse which is less than ~~six~~ eight thousand five hundred
28 dollars per year, the annual tax shall not be imposed on the
29 home. If the income is ~~six~~ eight thousand five hundred
30 dollars or more but less than fourteen sixteen thousand five
31 hundred dollars, the annual tax shall be computed as follows:

If the Household	Annual Tax Per
Income is:	Square Foot:
---\$-6,000-----6,999-99-----	3.0-cents
-----7,000-----7,999-99-----	6.0

1	-----8,000-----9,999.99-----10.0
2	-----10,000-----11,999.99-----13.0
3	-----12,000-----13,999.99-----15.0
4	<u>\$ 8,500 -- 9,499.99 3.0 cents</u>
5	<u>9,500 -- 10,499.99 6.0</u>
6	<u>10,500 -- 12,499.99 10.0</u>
7	<u>12,500 -- 14,499.99 13.0</u>
8	<u>14,500 -- 16,499.99 15.0</u>

9 For purposes of this subsection "income" means income as
 10 defined in section 425.17, subsection 7, and "base year" means
 11 the calendar year preceding the year in which the claim for a
 12 reduced rate of tax is filed. The home reduced rate of tax
 13 shall only be allowed on the home in which the claimant is
 14 residing at the time in which the claim for a reduced rate of
 15 tax is filed.

16 Beginning with the 1998 base year, the income dollar
 17 amounts set forth in this subsection shall be multiplied by
 18 the cumulative adjustment factor for that base year as
 19 determined in section 425.23, subsection 4.

20 Sec. 16. APPLICABILITY. This division of this Act applies
 21 to claims for credit for property taxes due, claims for
 22 reimbursement for rent constituting property taxes paid, and
 23 claims for credit for mobile home taxes due filed on or after
 24 January 1, 1999.

25 EXPLANATION

26 Division I of the bill eliminates the taxation for
 27 individual income tax purposes of certain qualifying net
 28 capital gains, including gains from the sale of certain
 29 livestock and timber, and business real property. Present law
 30 allows only a 45 percent deduction. The division also
 31 eliminates the material participation requirement from sales
 32 of businesses to lineal descendants for purposes of the
 33 taxation of net capital gains from these sales.

34 The division provides for complete exemption from the state
 35 individual income tax of capital gains from each capital asset

1 when it is part of a sale of the taxpayer's business if the
2 sale is made to a lineal descendant of the taxpayer.

3 This division takes effect upon enactment and applies
4 retroactively to January 1, 1998, for tax years beginning on
5 or after that date.

6 Division II of the bill increases from \$3,000 to \$5,000 for
7 separate filers and from \$6,000 to \$10,000 for joint filers
8 the exemption allowed under the individual income tax for
9 pension and deferred compensation income. The division takes
10 effect upon enactment and applies retroactively to January 1,
11 1998, for tax years beginning on or after that date.

12 Division III of the bill doubles the amounts of the
13 personal exemption credits for single filers, heads of
14 household, and joint filers under the state individual income
15 tax. The division applies retroactively to January 1, 1998,
16 for tax years beginning on or after that date.

17 Division IV of the bill increases the tuition and textbook
18 tax credit from 10 percent to 25 percent of the first \$1,000
19 paid by the taxpayer for each dependent for tuition and
20 textbooks to attend an accredited elementary or secondary
21 school. The division also expands the definitions of
22 "tuition" and "textbooks" to include those expenses,
23 materials, or charges relating to extracurricular activities.
24 The credit is a nonrefundable credit that is applied against
25 the taxpayer's state individual income tax.

26 This division applies retroactively to January 1, 1998, for
27 tax years beginning on or after that date.

28 Division V of this bill exempts sales and services made to
29 privately owned or operated hospitals from the state sales and
30 use taxes.

31 Division VI of this bill changes present law which grants a
32 mobile home tax credit, additional homestead credit, and
33 reimbursement for rent constituting property taxes paid for
34 certain low-income persons based upon household incomes.
35 Under present law, the maximum credit and reimbursement is

1 granted to those with household incomes of \$6,000 or less with
2 no credit or reimbursement granted to those with household
3 incomes of \$14,000 or more. The division increases these
4 figures to \$8,500 or less and \$16,500 or more, respectively.
5 The division also adjusts these figures for inflation on an
6 annual basis.

7 The division applies to claims for credits or
8 reimbursements filed on or after January 1, 1999.

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HOUSE FILE 2513

AN ACT

RELATING TO THE INDIVIDUAL INCOME TAX BY ELIMINATING THE TAXATION OF CERTAIN CAPITAL GAINS AND PROVIDING SPECIAL TREATMENT OF GAINS FROM THE SALES OF BUSINESSES TO DESCENDANTS, INCREASING THE AMOUNT OF PENSION INCOME EXCLUDED, INCREASING CERTAIN PERSONAL EXEMPTION TAX CREDITS, AND INCREASING AND EXPANDING THE TUITION AND TEXTBOOK TAX CREDIT, EXEMPTING SALES AND SERVICES TO CERTAIN NONPROFIT HOSPITALS FROM THE SALES, SERVICES, AND USE TAXES, AND RELATING TO THE INCOME ELIGIBILITY REQUIREMENTS FOR THE HOMESTEAD PROPERTY TAX CREDIT, MOBILE HOME TAX CREDIT, OR REIMBURSEMENT FOR RENT CONSTITUTING PROPERTY TAXES PAID, AND INCLUDING EFFECTIVE AND PROSPECTIVE AND RETROACTIVE APPLICABILITY DATE PROVISIONS.

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

DIVISION I
CAPITAL GAINS

Section 1. Section 422.7, subsection 21, unnumbered paragraph 1, Code Supplement 1997, is amended to read as follows:

Subtract forty-five-percent-of the net capital gain from the following:

Sec. 2. Section 422.7, subsection 21, paragraph a, Code Supplement 1997, is amended to read as follows:

a. (1) Net capital gain from the sale of real property used in a business, in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years, or from the sale of a business, as defined in section 422.42, in which the taxpayer was employed or in which the taxpayer materially participated for ten

years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business.

However, where the business is sold to individuals who are all lineal descendants of the taxpayer, the taxpayer does not have to have materially participated in the business in order for the net capital gain from the sale to be excluded from taxation.

However, in lieu of the net capital gain deduction in this paragraph and paragraphs "b", "c", and "d", where the business is sold to individuals who are all lineal descendants of the taxpayer, the amount of capital gain from each capital asset may be subtracted in determining net income.

(2) For purposes of this paragraph, "lineal descendant" means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendants of the taxpayer.

Sec. 3. Section 422.7, subsection 21, unnumbered paragraph 2, Code Supplement 1997, is amended by striking the unnumbered paragraph and inserting in lieu thereof the following:

However, to the extent otherwise allowed, the deduction provided in this subsection is not allowed for purposes of computation of a net operating loss in section 422.9, subsection 3, and in computing the income for the taxable year or years for which a net operating loss is deducted.

Sec. 4. EFFECTIVE AND APPLICABILITY DATES. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1998, for tax years beginning on or after that date.

DIVISION II
PENSION INCOME EXCLUSION

Sec. 5. Section 422.7, subsection 34, Code Supplement 1997, is amended to read as follows:

34. For a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under this subsection for the tax year, subtract, to the extent included, the total amount of a governmental or other pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of three five thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of six ten thousand dollars for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or fifty-five years of age or older can only exclude the amount of pension or retirement pay received as a result of the death of the other spouse. A husband and wife filing separate state income tax returns or separately on a combined state return are allowed a combined maximum exclusion under this subsection of up to ten thousand dollars. The ten thousand dollar exclusion shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

Sec. 6. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1998, for tax years beginning on or after that date.

DIVISION III

PERSONAL EXEMPTION CREDIT

Sec. 7. Section 422.12, subsection 1, paragraphs a and b, Code 1997, is amended to read as follows:

- a. For an estate or trust, a single individual, or a married person filing a separate return, twenty forty dollars.
- b. For a head of household, or a husband and wife filing a joint return, forty eighty dollars.

Sec. 8. This division of this Act applies retroactively to January 1, 1998, for tax years beginning on or after that date.

DIVISION IV

TUITION TAX CREDIT

Sec. 9. Section 422.12, subsection 2, Code 1997, is amended to read as follows:

2. A tuition credit equal to ten twenty-five percent of the first one thousand dollars which the taxpayer has paid to others for each dependent in grades kindergarten through twelve, for tuition and textbooks of each dependent in attending an elementary or secondary school situated in Iowa, which school is accredited or approved under section 256.11, which is not operated for profit, and which adheres to the provisions of the federal Civil Rights Act of 1964 and chapter 216. As used in this subsection, "textbooks" means books and other instructional materials and equipment used in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state and does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to inculcate those tenets, doctrines, or worship, ~~and does not include.~~ "Textbooks" includes books or materials used for extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or programs of a similar nature. Notwithstanding any other provision, all other credits allowed under this section and section 422.12B shall be deducted before the tuition credit under this subsection. The department, when conducting an audit of a taxpayer's return, shall also audit the tuition tax credit portion of the tax return.

As used in this subsection, "tuition" means any charges for the expenses of personnel, buildings, equipment and materials other than textbooks, and other expenses of elementary or secondary schools which relate to the teaching only of those subjects legally and commonly taught in public elementary and secondary schools in this state and which do not relate to the teaching of religious tenets, doctrines, or worship, the purpose of which is to inculcate those tenets, doctrines, or worship, ~~and which do not.~~ "Tuition" includes those expenses which relate to extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or programs of a similar nature.

Sec. 10. This division of this Act applies retroactively to January 1, 1998, for tax years beginning on or after that date.

DIVISION V

EXEMPTION FOR NONPROFIT HOSPITALS

Sec. 11. Section 422.45, Code 1997, is amended by adding the following new subsection:

NEW SUBSECTION. 52. The gross receipts from the sale or rental of tangible personal property or from services performed, rendered, or furnished to a nonprofit hospital licensed pursuant to chapter 135B to be used in the operation of the hospital.

DIVISION VI

HOMESTEAD CREDIT, RENT REIMBURSEMENT, AND
MOBILE HOME TAX CREDIT

Sec. 12. Section 425.23, subsection 1, Code 1997, is amended to read as follows:

1. a. The tentative credit or reimbursement for a claimant described in section 425.17, subsection 2, paragraph "a" and paragraph "b" if no appropriation is made to the fund created in section 425.40 shall be determined in accordance with the following schedule:

Percent of property taxes
due or rent constituting

If the household income is: property taxes paid allowed as a credit or reimbursement:

\$-----0-----5,999.99.....	100%
--6,000-----6,999.99.....	85
--7,000-----7,999.99.....	70
--8,000-----9,999.99.....	50
--10,000-----11,999.99.....	35
--12,000-----13,999.99.....	25
<u>\$ 0 -- 8,499.99</u>	<u>100%</u>
<u>8,500 -- 9,499.99</u>	<u>85</u>
<u>9,500 -- 10,499.99</u>	<u>70</u>
<u>10,500 -- 12,499.99</u>	<u>50</u>
<u>12,500 -- 14,499.99</u>	<u>35</u>
<u>14,500 -- 16,499.99</u>	<u>25</u>

b. If moneys have been appropriated to the fund created in section 425.40, the tentative credit or reimbursement for a claimant described in section 425.17, subsection 2, paragraph "b", shall be determined as follows:

(1) If the amount appropriated under section 425.40 plus any supplemental appropriation made for a fiscal year for purposes of this lettered paragraph is at least twenty-seven million dollars, the tentative credit or reimbursement shall be determined in accordance with the following schedule:

If the household income is:	Percent of property taxes due or rent constituting property taxes paid allowed as a credit or reimbursement:
\$-----0-----5,999.99.....	100%
--6,000-----6,999.99.....	85
--7,000-----7,999.99.....	70
--8,000-----9,999.99.....	50
--10,000-----11,999.99.....	35
--12,000-----13,999.99.....	25
<u>\$ 0 -- 8,499.99</u>	<u>100%</u>

8,500 -- 9,499.99	85
9,500 -- 10,499.99	70
10,500 -- 12,499.99	50
12,500 -- 14,499.99	35
14,500 -- 16,499.99	25

(2) If the amount appropriated under section 425.40 plus any supplemental appropriation made for a fiscal year for purposes of this lettered paragraph is less than twenty-seven million dollars the tentative credit or reimbursement shall be determined in accordance with the following schedule:

	Percent of property taxes due or rent constituting property taxes paid
If the household income is:	allowed as a credit or reimbursement:

\$-----0-----5,999.99	-----50%
--6,000-----6,999.99	-----42
--7,000-----7,999.99	-----35
--8,000-----9,999.99	-----25
-10,000-----11,999.99	-----17
-12,000-----13,999.99	-----12
<u>\$ 0 -- 8,499.99</u>	<u>50%</u>
<u>8,500 -- 9,499.99</u>	<u>42</u>
<u>9,500 -- 10,499.99</u>	<u>35</u>
<u>10,500 -- 12,499.99</u>	<u>25</u>
<u>12,500 -- 14,499.99</u>	<u>17</u>
<u>14,500 -- 16,499.99</u>	<u>12</u>

Sec. 13. Section 425.23, subsection 3, paragraph a, Code 1997, is amended to read as follows:

a. A person who is eligible to file a claim for credit for property taxes due and who has a household income of six eight thousand five hundred dollars or less and who has an unpaid special assessment levied against the homestead may file a claim for a special assessment credit with the county treasurer. The department shall provide to the respective treasurers the forms necessary for the administration of this

subsection. The claim shall be filed not later than September 30 of each year. Upon the filing of the claim, interest for late payment shall not accrue against the amount of the unpaid special assessment due and payable. The claim filed by the claimant constitutes a claim for credit of an amount equal to the actual amount due upon the unpaid special assessment, plus interest, payable during the fiscal year for which the claim is filed against the homestead of the claimant. However, where the claimant is an individual described in section 425.17, subsection 2, paragraph "b", and the tentative credit is determined according to the schedule in ~~section 425.23~~, subsection 1, paragraph "b", subparagraph (2), of this section, the claim filed constitutes a claim for credit of an amount equal to one-half of the actual amount due and payable during the fiscal year. The treasurer shall certify to the director of revenue and finance not later than October 15 of each year the total amount of dollars due for claims allowed. The amount of reimbursement due each county shall be paid by the director of revenue and finance by November 15 of each year, drawn upon warrants payable to the respective treasurer. There is appropriated annually from the general fund of the state to the department of revenue and finance an amount sufficient to carry out the provisions of this subsection. The treasurer shall credit any moneys received from the department against the amount of the unpaid special assessment due and payable on the homestead of the claimant.

Sec. 14. Section 425.23, Code 1997, is amended by adding the following new subsection:

NEW SUBSECTION. 4. a. For the base year beginning in the 1999 calendar year and for each subsequent base year, the dollar amounts set forth in subsections 1 and 3 shall be multiplied by the cumulative adjustment factor for that base year. "Cumulative adjustment factor" means the product of the annual adjustment factor for the 1998 base year and all annual adjustment factors for subsequent base years. The cumulative adjustment factor applies to the base year beginning in the

calendar year for which the latest annual adjustment factor has been determined.

b. The annual adjustment factor for the 1998 base year is one hundred percent. For each subsequent base year, the annual adjustment factor equals the annual inflation factor for the calendar year, in which the base year begins, as computed in section 422.4 for purposes of the individual income tax.

Sec. 15. Section 435.22, subsection 2, Code 1997, is amended to read as follows:

2. If the owner of the home is an Iowa resident, has attained the age of twenty-three years on or before December 31 of the base year, and has an income when included with that of a spouse which is less than six eight thousand five hundred dollars per year, the annual tax shall not be imposed on the home. If the income is six eight thousand five hundred dollars or more but less than fourteen sixteen thousand five hundred dollars, the annual tax shall be computed as follows:

If the Household Income is:	Annual Tax Per Square Foot:
---\$-6,000---6,999.99-----	3.0 cents
----7,000----7,999.99-----	6.0
----8,000----9,999.99-----	10.0
----10,000---11,999.99-----	13.0
----12,000---13,999.99-----	15.0
\$ 8,500 -- 9,499.99	3.0 cents
9,500 -- 10,499.99	6.0
10,500 -- 12,499.99	10.0
12,500 -- 14,499.99	13.0
14,500 -- 16,499.99	15.0

For purposes of this subsection "income" means income as defined in section 425.17, subsection 7, and "base year" means the calendar year preceding the year in which the claim for a reduced rate of tax is filed. The home reduced rate of tax shall only be allowed on the home in which the claimant is residing at the time in which the claim for a reduced rate of tax is filed.

Beginning with the 1998 base year, the income dollar amounts set forth in this subsection shall be multiplied by the cumulative adjustment factor for that base year as determined in section 425.23, subsection 4.

Sec. 16. APPLICABILITY. This division of this Act applies to claims for credit for property taxes due, claims for reimbursement for rent constituting property taxes paid, and claims for credit for mobile home taxes due filed on or after January 1, 1999.

RON J. CORBETT
Speaker of the House

MARY E. KRAMER
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2513, Seventy-seventh General Assembly.

ELIZABETH ISAACSON
Chief Clerk of the House

Approved May 6, 1998

TERRY E. BRANSTAD
Governor