S - 3/5/97 W. & Means
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FEB 27 1997

WAYS & MEANS CALENDAR

HOUSE FILE 388
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 159)

Passed House, Date 3/4/97 (p.488) Passed Senate, Date 3/20/97 (p.734)
Vote: Ayes 97 Nays 3 Vote: Ayes 45 Nays 3
Approved March 27, 1997

Passed 3-24-97
Vote 97-3 (p.748)

A BILL FOR

An Act reducing the state individual income tax rates by fifteen percent and including an effective date provision.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

HF 388

TLSB 2228HV 77
mg/jw/5

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

a. On all taxable income from zero through one thousand dollars, ~~four-tenths~~ thirty-four hundredths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ sixty-eight hundredths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and ~~seven-tenths~~ three-tenths percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, ~~five~~ four and twenty-five hundredths percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, ~~six~~ five and ~~eight-tenths~~ seventy-eight hundredths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven~~ six and ~~two-tenths~~ twelve-hundredths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven~~ six and ~~fifty-five~~ forty-two hundredths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight~~ seven and ~~eight-tenths~~ forty-eight hundredths percent.

i. On all taxable income exceeding forty-five thousand dollars, ~~nine~~ eight and ~~ninety-eight~~ forty-eight hundredths percent.

Sec. 2. This Act takes effect January 1, 1998, and applies to tax years beginning on or after that date.

EXPLANATION

The bill reduces the state individual income tax rates by 15 percent. The lowest and highest rates under present law are .4 percent and 9.98 percent, respectively. Under the bill these figures would be .34 percent and 8.48 percent.

S.F. ________ H.F. 388

The bill takes effect January 1, 1998, and applies to tax years beginning on or after that date.

HOUSE FILE 388
FISCAL NOTE

A fiscal note for **House File 388** 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 388 provides for a 15.0% reduction in each marginal income tax rate. Currently, there are nine income tax brackets ranging from 0.40% to 9.98%. House File 388 would lower the range to 0.34% to 8.48%. The top rate, under current law and HF 388, is applied to income in excess of $49,005.

The Bill is effective for tax years beginning on or after January 1, 1998. This fiscal note does not take into account any impact that may result from taxpayers shifting income into a future fiscal year or shifting deductions into a past fiscal year.

FISCAL IMPACT

House File 388 is expected to result in a decrease in revenues to the General Fund of approximately $156.0 million in FY 1998 and $302.0 million in FY 1999.

SOURCES

Department of Revenue and Finance
Legislative Tax Model

(LSB 2228hv, JAM)

FILED MARCH 4, 1997

BY DENNIS PROUTY, FISCAL DIRECTOR

LSB 2228HV 77

mg/jw/5

HOUSE FILE 388

S-3195

Amend House File 388, as passed by the House, as follows:

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

"DIVISION I -- PERCENTAGE OF FEDERAL TAX LIABILITY

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

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

Sec. 2. Section 422.4, subsection 2, Code 1997, is amended by striking the subsection.

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

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

Sec. 4. Section 422.4, subsection 16, Code 1997, is amended by striking the subsection.

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

1. a. A tax is imposed upon every resident and nonresident individual or estate and trust, which tax is levied and shall be collected and paid annually upon and with respect to net income at the rate of twenty-eight and six-tenths percent of the taxpayer's adjusted federal income tax liability.

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

c. (1) The tax imposed upon the net income of a resident shareholder in a value-added corporation

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which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state may be computed by reducing the amount determined pursuant to paragraph "a" by multiplying the amount by a fraction of which the resident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "b", is the numerator and the resident's total net income is the denominator. This provision also applies to individuals who are residents of Iowa for less than the entire tax year.

(2) In order for a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, to claim the benefits of apportionment of income of the value-added corporation, the taxpayer must completely fill out the return, determine the taxpayer's income tax liability without the benefit of apportionment of the value-added corporation's income, and pay the amount of tax owed. The taxpayer shall recompute the taxpayer's income tax liability, by applying the provisions of this lettered paragraph on a special return. This special return shall be filed under rules of the director and constitutes a claim for refund of the difference between the amount of tax the taxpayer paid as determined without the provisions of this lettered paragraph and the amount of tax determined with the provisions of this lettered paragraph.

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

(4) For any tax year, the aggregate amount of refund claims that shall be paid pursuant to this lettered paragraph shall not exceed five million dollars. If, for a tax year, the aggregate amount of refund claims filed pursuant to this lettered paragraph exceeds five million dollars, each claim for refund shall be paid on a pro rata basis so that the aggregate amount of refund claims does not exceed five million dollars. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled under this lettered paragraph is the pro rata amount that was paid and the taxpayer is not entitled to a refund of the unpaid portion and is not entitled to carry that amount forward or backward to another tax year. Taxpayers shall not use refunds as estimated payments for the succeeding tax

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year. Taxpayers whose tax years begin on January 1 must file their refund claims by October 31 of the calendar year following the end of their tax year to be eligible for refunds. Taxpayers whose tax years begin on a date other than January 1 must file their refund claims by the end of the tenth month following the end of their tax years to be eligible. The department shall determine on February 1 of the second succeeding calendar year if the total amount of claims for refund exceeds five million dollars for the tax year. Notwithstanding any other provision, interest shall not be due on any refund claims that are paid by the last day of February of the second succeeding calendar year. If the claim is not payable on February 1 of the second succeeding calendar year, because the taxpayer is a fiscal year filer, then the amount of the claim allowed shall be in the same ratio as the refund claims available on February 1 of the second succeeding calendar year. These claims shall be funded by moneys appropriated for payment of individual income tax refunds.

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

However, the tax shall not be imposed on a resident or nonresident whose net income~~,-as-defined-in-section 422.7,~~ is thirteen thousand five hundred dollars or less in the case of married persons filing jointly ~~or filing-separately-on-a-combined-return~~, unmarried heads of household, and surviving spouses or nine thousand dollars or less in the case of all other persons~~,-but-in-the-event-that~~. If the payment of tax under this division would reduce the net income of a resident or nonresident to less than thirteen thousand five hundred dollars or nine thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirteen thousand five hundred dollars or nine thousand dollars as applicable. The preceding ~~sentence-does~~ sentences do not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. For purposes of this subsection, ~~net-income~~ "net income" includes all amounts of pensions or other retirement income received from any source which is not taxable under this division as a result of ~~the-government-pension-exclusions-in-section 422.7,-or~~ any other state law. If the combined net income of a husband and wife exceeds thirteen thousand five hundred dollars, neither of them shall receive

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the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirteen thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in ~~section 422.9, subsection 3~~ the Internal Revenue Code. A person who is claimed as a dependent, as defined in the Internal Revenue Code, by another person ~~as defined in section 422.12~~ shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable.

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

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

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

422.6 INCOME FROM ESTATES OR TRUSTS.

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

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

422.7 ADJUSTMENTS TO FEDERAL TAXABLE INCOME.

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

1. Federal taxable income is increased by the following:

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

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b. Interest and dividends from regulated investment companies exempt from federal income tax under the Internal Revenue Code.

2. Federal taxable income is decreased by the following:

a. Interest and dividends from federal securities. The amount decreased shall be reduced by any interest on indebtedness incurred to carry the federal securities and by any expenses incurred in the production of interest and dividends from the federal securities to the extent deductible in determining federal taxable income.

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

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

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

b. A resident's income allocable to Iowa is the

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net income ~~determined-under-section-422.7~~ reduced by items of income and expenses from a subchapter S corporation which is a value-added corporation that carries on business within and without the state when those items of income and expenses pass directly to the shareholders under provisions of the Internal Revenue Code. These items of income and expenses are increased by the greater of the following:

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

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

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

4. The amount of minimum tax paid to another state or foreign country by a resident taxpayer of this state from preference items derived from sources outside of Iowa shall be allowed as a credit against the tax computed under this division except that the credit shall not exceed ~~what~~ the product of the state tax rate times the amount of ~~state~~ the federal alternative minimum tax ~~would-have-been~~ on the same preference items which were taxed by the other state or foreign country. The limitation on this credit shall be computed according to the following formula: The total of preference items earned outside of Iowa and taxed by another state or foreign country shall be divided by the total of preference items of the resident taxpayer of Iowa. ~~In-computing-this quotient,-those-items-excludable-under-section-422.5, subsection-1,-paragraph-"k",-subparagraph-(1)-shall not-be-used-in-computing-the-preference-items.~~ This quotient multiplied ~~times~~ by the ~~net-state~~ federal alternative minimum tax ~~as-determined-in-section 422.5,-subsection-1,-paragraph-"k"~~ on the total of preference items as if entirely earned in Iowa multiplied by the state tax rate shall be the maximum tax credit ~~against-the-Iowa-alternative-minimum-tax~~. However, the maximum tax credit ~~will~~ shall not be allowed to the extent that the minimum tax imposed by the other state or foreign country is less than the maximum tax credit otherwise computed above.

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

~~Except-as-provided-in-subsection-1A,-a~~ A resident or nonresident of this state shall make a return, signed in accordance with forms and rules prescribed by the director, if any of the following are applicable:

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

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

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

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

Every withholding agent and every employer as defined in this chapter and further defined in the Internal Revenue Code, with respect to income tax collected at source, making payment of wages to a nonresident employee working in Iowa, or to a resident employee, shall deduct and withhold from the wages an amount which will approximate the employee's annual tax liability on a calendar year basis, calculated on the basis of tables to be prepared by the department and schedules or percentage rates, based on the wages, to be prescribed by the department. Every employee or other person shall declare to the employer or withholding agent the number of the employee's or other person's personal exemptions and dependency exemptions or credits to be used in applying the tables and schedules or percentage rates. However, no greater number of personal or dependency exemptions or credits may be declared by the employee or other person than the number to which the employee or other person is entitled except as allowed under section 3402(m)(1) of the Internal Revenue Code ~~and-as-allowed for-the-child-and-dependent-care-credit-provided-in section-422.12C~~. The claiming of exemptions or credits in excess of entitlement is a serious misdemeanor.

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

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

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

Sec. 18. Sections 422.9, 422.10, 422.11A, 422.11B, 422.12, 422.12B, and 422.12C, Code 1997, are repealed.

DIVISION II -- COORDINATING AMENDMENTS

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

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

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

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

If the number of dependents is:	The weekly benefit amount shall equal the following fraction of high quarter wages:	Subject to the following maximum percentage of the statewide average weekly wage:
0	1/23	53%
1	1/22	55%
2	1/21	57%
3	1/20	60%
4 or more	1/19	65%

The maximum weekly benefit amount, if not a multiple of one dollar shall be rounded to the lower multiple of one dollar. However, until such time as sixty-five percent of the statewide average weekly wage exceeds one hundred ninety dollars, the maximum weekly benefit amounts shall be determined using the statewide average weekly wage computed on the basis of wages reported for calendar year 1981. As used in this section "dependent" means dependent as defined ~~in section-422.12,-subsection-1,-paragraph-"c"~~ for state individual income tax purposes, as if the individual claimant was a taxpayer, except that an individual claimant's nonworking spouse shall be deemed to be a dependent under this section. "Nonworking spouse" means a spouse who does not earn more than one hundred twenty dollars in gross wages in one week.

Sec. 21. Section 216B.3, subsection 15, Code 1997, is amended to read as follows:

15. Develop a plan to provide telephone yellow pages information without charge to persons declared to be blind ~~under-the-standards-in-section-422.12,-subsection-1,-paragraph-"e"~~. The department may apply for federal funds to support the service. The program shall be limited in scope by the availability of funds. For the purposes of this subsection, an individual is blind only if the individual's central visual acuity does not exceed twenty-two hundredths in the better eye with correcting lenses, or if the individual's visual acuity is greater than twenty-two hundredths but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty degrees.

Sec. 22. Section 257.21, unnumbered paragraph 2, Code 1997, is amended to read as follows:

The instructional support income surtax shall be imposed on the state individual income tax for the calendar year during which the school's budget year begins, or for a taxpayer's fiscal year ending during the second half of that calendar year and after the date the board adopts a resolution to participate in the program or the first half of the succeeding calendar year, and shall be imposed on all individuals residing in the school district on the last day of the applicable tax year. As used in this section, "state individual income tax" means the taxes computed under section 422.5~~,-less-the-credits-allowed-in-sections-422.11A,-422.11B,-422.11C,-422.12,-and-422.12B~~.

Sec. 23. Section 421.17, subsection 21, paragraph b, subparagraph (6), Code 1997, is amended to read as follows:

(6) Upon the request of a debtor or a debtor's spouse to the child support recovery unit, the foster care recovery unit, or the investigations division of the department of inspections and appeals, filed

within fifteen days from the mailing of the notice of entitlement to a refund or rebate, and upon receipt of the full name and social security number of the debtor's spouse, the unit or division shall notify the department of revenue and finance of the request to divide a joint income tax refund or rebate. The department of revenue and finance shall upon receipt of the notice divide a joint income tax refund or rebate between the debtor and the debtor's spouse in proportion to each spouse's net income as ~~determined under-section-422.7~~ defined in section 422.4.

Sec. 24. Section 421.17, subsection 23, paragraph f, Code 1997, is amended to read as follows:

f. Upon the timely request of a defaulter or a defaulter's spouse to the college student aid commission and upon receipt of the full name and social security number of the defaulter's spouse, the commission shall notify the department of revenue and finance of the request to divide a joint income tax refund or rebate. The department of revenue and finance shall upon receipt of the notice divide a joint income tax refund or rebate between the defaulter and the defaulter's spouse in proportion to each spouse's net income as ~~determined-under-section 422.7~~ defined in section 422.4.

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

e. Upon the request of a debtor or a debtor's spouse to the department, filed within fifteen days from the mailing of the notice of entitlement to a refund or rebate, and upon receipt of the full name and social security number of the debtor's spouse, the department shall divide a joint income tax refund or rebate between the debtor and the debtor's spouse in proportion to each spouse's net income as ~~determined under-section-422.7~~ defined in section 422.4.

Sec. 26. Section 422.32, unnumbered paragraph 2, Code 1997, is amended to read as follows:

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

Sec. 27. Section 422D.2, Code 1997, is amended to read as follows:

422D.2 LOCAL INCOME SURTAX.

A county may impose by ordinance a local income surtax as provided in section 422D.1 at the rate set by the board of supervisors, of up to one percent, on the state individual income tax of each individual residing in the county at the end of the individual's applicable tax year. However, the cumulative total of the percents of income surtax imposed on any taxpayer in the county shall not exceed twenty percent. The reason for imposing the surtax and the amount needed shall be set out in the ordinance. The surtax rate shall be set to raise only the amount needed. For purposes of this section, "state individual income tax" means the tax computed under section 422.5~~, less the credits allowed in sections 422.11A, 422.11B, 422.11C, 422.12, and 422.12B~~.

Sec. 28. Section 425.17, subsection 7, Code 1997, is amended to read as follows:

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

Sec. 29. Section 450.4, subsection 5, Code 1997, is amended to read as follows:

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

Sec. 30. Section 476.6, subsection 1, unnumbered paragraph 2, Code 1997, is amended to read as follows:

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

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the individual's central visual acuity does not exceed twenty-two hundredths in the better eye with correcting lenses, or if the individual's visual acuity is greater than twenty-two hundredths but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty degrees.

Sec. 31. Section 541A.2, subsection 7, unnumbered paragraph 1, Code 1997, is amended to read as follows:

An individual development account closed in accordance with this subsection is not subject to the limitations and benefits provided by this chapter but is subject to state tax in accordance with the provisions of ~~section 422.7, subsection 28, and~~ section 450.4, subsection 6. An individual development account may be closed for any of the following reasons:

Sec. 32. Section 514A.3, subsection 2, Code 1997, is amended by striking the subsection.

DIVISION III -- EFFECTIVE AND APPLICABILITY DATE PROVISIONS

Sec. 33. This Act takes effect January 1, 1998, and applies to tax years beginning on or after January 1, 1998."

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

By MARY NEUHAUSER
ROBERT E. DVORSKY

S-3195 FILED MARCH 20, 1997
RULED OUT OF ORDER

3/20/97

(p.732)

HOUSE FILE 388

S-3196

Amend House File 388 as follows:

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

"DIVISION I -- IOWA NET INCOME

Section 1. Section 422.4, subsection 1, paragraphs b and c, Code 1997, are amended to read as follows:

b. "Cumulative inflation factor" means the product of the annual inflation factor for the ~~1988~~ 1997 calendar year and all annual inflation factors for subsequent calendar years as determined pursuant to this subsection. The cumulative inflation factor applies to all tax years beginning on or after January 1 of the calendar year for which the latest annual inflation factor has been determined.

c. The annual inflation factor for the ~~1988~~ 1997 calendar year is one hundred percent.

Sec. 2. Section 422.4, subsections 2 and 16, Code 1997, are amended by striking the subsections.

Sec. 3. Section 422.4, subsection 9, Code 1997, is amended to read as follows:

9. The word "individual" means a natural person; and if an individual is permitted to file as a corporation, under the Internal Revenue Code, that fictional status is not recognized for purposes of this chapter, and the individual's ~~taxable~~ net income shall be computed as required under the Internal Revenue Code relating to individuals not filing as a corporation, with the adjustments allowed by this ~~chapter~~ division.

Sec. 4. Section 422.4, Code 1997, is amended by adding the following new subsection:

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

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

1. A tax is imposed upon every resident and nonresident individual or estate and trust which tax shall be levied, collected, and paid annually upon and with respect to the entire net income as defined in this division at rates, depending on filing status, as follows:

a. For a single individual, estate, or trust, the rates of tax are the following:

Net Income over	but not over	Rate
$ 0	3,400	3.8%

3,400	7,000	4.5
7,000	21,000	5.7
21,000	100,000	6.0
100,000		6.5

b. For husband and wife filing a joint return, the rates of tax are the following:

Net Income over	but not over	Rate
$ 0	4,400	3.8%
4,400	9,000	4.5
9,000	27,000	5.7
27,000	100,000	6.0
100,000		6.5

c. For a married person filing separately, the rates of tax are the following:

Net Income over	but not over	Rate
$ 0	2,200	3.8%
2,200	4,500	4.5
4,500	13,500	5.7
13,500	50,000	6.0
50,000		6.5

d. For a head of household, the rates of tax are the following:

Net Income over	but not over	Rate
$ 0	3,700	3.8%
3,700	7,600	4.5
7,600	22,800	5.7
22,800	100,000	6.0
100,000		6.5

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

(2) The tax imposed upon the net income of a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state may be computed by reducing the amount determined pursuant to paragraphs "a" through "d", by the amounts of

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nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the resident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "b", is the numerator and the resident's total net income computed under section 422.7 is the denominator. This subparagraph also applies to individuals who are residents of Iowa for less than the entire tax year.

(a) In order for a resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, to claim the benefits of apportionment of income of the value-added corporation, the taxpayer must completely fill out the return, determine the taxpayer's income tax liability without the benefit of apportionment of the value-added corporation's income, and pay the amount of tax owed. The taxpayer shall recompute the taxpayer's income tax liability, by applying the provisions of this subparagraph on a special return. This special return shall be filed under rules of the director and constitutes a claim for refund of the difference between the amount of tax the taxpayer paid as determined without the provisions of this subparagraph and the amount of tax determined with the provisions of this subparagraph.

(b) This subparagraph shall not affect the amount of the taxpayer's checkoff to the Iowa election campaign fund under section 56.18, the checkoff for the fish and game fund in section 456A.16, the credits from tax provided in sections 422.10, 422.11A, and 422.12 and the allocation of these credits between spouses if the taxpayers filed separate returns.

(c) For any tax year, the aggregate amount of refund claims that shall be paid pursuant to this subparagraph shall not exceed five million dollars. If, for a tax year, the aggregate amount of refund claims filed pursuant to this subparagraph exceeds five million dollars, each claim for refund shall be paid on a pro rata basis so that the aggregate amount of refund claims does not exceed five million dollars. In the case where refund claims are not paid in full, the amount of the refund to which the taxpayer is entitled under this subparagraph is the pro rata amount that was paid and the taxpayer is not entitled to a refund of the unpaid portion and is not entitled to carry that amount forward or backward to another tax year. Taxpayers shall not use refunds as estimated payments for the succeeding tax year. Taxpayers whose tax years begin on January 1 must file their refund claims by October 31 of the calendar year following the end of their tax year to be eligible for refunds. Taxpayers whose tax years begin on a date other than January 1 must file their refund claims by the end of the tenth month following the end of their tax years to be eligible. The department shall determine on February 1 of the second succeeding calendar year if the total amount of claims for refund exceeds five million dollars for the tax year. Notwithstanding any other provision, interest shall not be due on any refund claims that are paid by the last day of February of the second succeeding calendar year. If the claim is not payable on February 1 of the second succeeding calendar year, because the taxpayer is a fiscal year filer, then the amount of the claim allowed shall be in the same ratio as the refund claims available on February 1 of the second succeeding calendar year. These claims shall be funded by moneys appropriated for payment of individual income tax refunds.

1A. There is imposed upon every resident and nonresident of this state, including estates and trusts, the greater of the tax determined in paragraphs "a" through "e", or the state alternative minimum tax equal to eighty-five percent of the maximum state individual income tax rate applicable to the taxpayer for the tax year, rounded to the nearest one-tenth of one percent, of the state alternative minimum net income of the taxpayer as computed under this subsection.

The state alternative minimum net income of a taxpayer is equal to the taxpayer's federal alternative minimum taxable income, as computed for federal income tax purposes with the adjustments provided in section 422.7.

In the case of a resident, including a resident estate or trust, the state's apportioned share of the state alternative minimum tax is one hundred percent of the state alternative minimum tax computed in this subsection. In the case of a resident or part-year resident shareholder in a value-added corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, a nonresident, including a nonresident estate or trust, or an individual, estate, or trust that is domiciled in the state for less than the entire tax year, the state's apportioned share of the state alternative

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minimum tax is the amount of tax computed under this subsection, reduced by the applicable credits in sections 422.10 through 422.12 and this result multiplied by a fraction with a numerator of the sum of state net income allocated to Iowa as determined in section 422.8, subsection 2, paragraph "a" or "b", as applicable, plus tax preference items, adjustments, and losses attributable to Iowa and with a denominator of the sum of total net income computed under section 422.7 plus all tax preference items, adjustments, and losses. In computing this fraction, those items excludable in computing state alternative minimum net income shall not be used in computing the tax preference items.

Sec. 6. Section 422.5, subsections 2 and 6, Code 1997, are amended to read as follows:

2. However, the tax shall not be imposed on a resident or nonresident whose net income, as defined in section 422.7, is thirteen thousand five hundred dollars or less in the case of married persons filing jointly ~~or-filing-separately-on-a-combined-return~~, unmarried heads of household, and surviving spouses or nine thousand dollars or less in the case of all other persons; but in the event that the payment of tax under this division would reduce the net income to less than thirteen thousand five hundred dollars or nine thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirteen thousand five hundred dollars or nine thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. For purposes of this subsection, net income includes all amounts of pensions or other retirement income received from any source which is not taxable under this division as a result of the ~~government~~ pension exclusions in section 422.7, or any other state law. If the combined net income of a husband and wife exceeds thirteen thousand five hundred dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirteen thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss ~~as-provided-in-section-422.9,~~

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~~subsection 3~~. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable.

In addition, if the married persons', filing jointly ~~or filing separately on a combined return~~, unmarried head of household's, or surviving spouse's net income exceeds thirteen thousand five hundred dollars, the regular tax imposed under this division shall be the lesser of the maximum state individual income tax rate times the portion of the net income in excess of thirteen thousand five hundred dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the husband and wife. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward the loss ~~as provided in section 422.9, subsection 3~~.

6. Upon determination of the latest cumulative inflation factor, the director shall multiply each dollar amount set forth in subsection 1, paragraphs "a" through ~~"i"~~ "d", of this section by this cumulative inflation factor, shall round off the resulting product to the nearest one dollar, and shall incorporate the result into the income tax forms and instructions for each tax year.

Sec. 7. Section 422.5, subsections 3, 4, 5, 7, 9, 10, 11, and 12, Code 1997, are amended by striking the subsections.

Sec. 8. Section 422.6, unnumbered paragraph 1, Code 1997, is amended to read as follows:

The tax imposed by section 422.5 less the credits allowed under sections 422.10, 422.11A, and 422.11B, ~~and 422.11C,~~ and the personal exemption credit allowed under section 422.12 apply to and are a charge against estates and trusts with respect to their ~~taxable~~ net income, and the rates are the same as those applicable to individuals. The fiduciary shall make the return of income for the estate or trust for which the fiduciary acts, whether the income is taxable to the estate or trust or to the beneficiaries.

Sec. 9. Section 422.7, Code 1997, is amended by striking the section and inserting in lieu thereof the

following:

422.7 NET INCOME COMPUTED.

In determining the taxpayer's net income, the taxpayer's federal taxable income shall be adjusted as provided in subsections 1 and 2.

1. Federal taxable income is increased by the following:

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

b. Interest and dividends from regulated investment companies exempt from federal income tax under the Internal Revenue Code.

c. Iowa income taxes, to the extent deducted in computing federal taxable income.

d. Federal income tax refunds, to the extent deducted in computing state income taxes for tax years beginning before January 1, 1997.

2. Federal taxable income is decreased by the following:

a. Interest and dividends from federal securities. The amount decreased shall be reduced by any interest on indebtedness incurred to carry the federal securities and by any expenses incurred in the production of interest and dividends from the federal securities to the extent deductible in determining federal taxable income.

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

c. Iowa income tax refunds, to the extent included in determining federal taxable income.

d. Federal income taxes, to the extent paid for tax years beginning before January 1, 1997.

e. 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 deduction under this paragraph 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 ten thousand dollars for a person who files a separate state income tax return and up to a maximum of twenty 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.

f. In the case of married persons filing a joint return where both spouses have qualified earned income, subtract an amount equal to thirty-four percent of the lesser of thirty thousand dollars or the amount of the qualified earned income of the spouse with the lower qualified earned income.

For purposes of this paragraph "qualified earned income" means the same as defined for the federal income tax year beginning in the 1986 calendar year.

Sec. 10. Section 422.8, subsection 2, paragraph a, Code 1997, is amended to read as follows:

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

Sec. 11. Section 422.8, subsection 2, paragraph b, subparagraph (2), Code 1997, is amended to read as follows:

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

Sec. 12. Section 422.8, subsections 3 and 4, Code 1997, are amended to read as follows:

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

4. The amount of minimum tax paid to another state or foreign country by a resident taxpayer of this state from preference items derived from sources outside of Iowa shall be allowed as a credit against the tax computed under this division except that the credit shall not exceed what the amount of state alternative minimum tax would have been on the same preference items which were taxed by the other state or foreign country. The limitation on this credit shall be computed according to the following formula: The total of preference items earned outside of Iowa and taxed by another state or foreign country shall be divided by the total of preference items of the resident taxpayer of Iowa. In computing this quotient, those items excludable under section ~~422.5, subsection 1, paragraph "k", subparagraph (1)~~ 422.7 shall not be used in computing the preference items. This quotient multiplied times the net state alternative minimum tax as determined in section 422.5, subsection ~~1, paragraph "k"~~ 1A, on the total of preference items as if entirely earned in Iowa shall be the maximum tax credit against the Iowa alternative minimum tax. However, the maximum tax credit will not be allowed to the extent that the minimum tax imposed by the other state or foreign country is less than the maximum tax credit computed above.

Sec. 13. Section 422.11B, Code 1997, is amended to read as follows:

422.11B MINIMUM TAX CREDIT.

1. There is allowed as a credit against the tax determined in section 422.5, subsection 1, paragraphs "a" through ~~"j"~~ "e", for a tax year an amount equal to the minimum tax credit for that tax year.

The minimum tax credit for a tax year is the excess, if any, of the adjusted net minimum tax imposed for all prior tax years beginning on or after January 1, 1987, over the amount allowable as a credit under this section for those prior tax years.

2. The allowable credit under subsection 1 for a tax year shall not exceed the excess, if any, of the tax determined in section 422.5, subsection 1, paragraphs "a" through ~~"j"~~ "e", over the state alternative minimum tax as determined in section 422.5, subsection ~~1, paragraph "k"~~ 1A.

The net minimum tax for a tax year is the excess, if any, of the tax determined in section 422.5, subsection ~~1, paragraph "k"~~ 1A, for the tax year over the tax determined in section 422.5, subsection 1, paragraphs "a" through ~~"j"~~ "e", for the tax year.

The adjusted net minimum tax for a tax year is the net minimum tax for the tax year reduced by the amount which would be the net minimum tax if the only item of tax preference taken into account was that described in paragraph (6) of section 57(a) of the Internal Revenue Code.

Sec. 14. Section 422.12, subsections 1 and 3, Code 1997, are amended by striking the subsections.

Sec. 15. Section 422.12, subsection 2, unnumbered paragraph 1, Code 1997, is amended to read as follows:

A tuition credit equal to ten 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 books or materials 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~~ the credit allowed under ~~this section and~~ section 422.12B shall be deducted

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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.

Sec. 16. Section 422.12B, subsection 2, Code 1997, is amended to read as follows:

2. ~~Married-taxpayers-electing-to-file-separate returns-or-filing-separately-on-a-combined-return-may avail-themselves-of-the-earned-income-credit-by allocating-the-earned-income-credit-to-each-spouse-in the-proportion-that-each-spouse's-respective-earned income-bears-to-the-total-combined-earned-income.~~ Taxpayers affected by the allocation provisions of section 422.8 shall be permitted a deduction for the credit only in the amount fairly and equitably allocable to Iowa under rules prescribed by the director.

Sec. 17. Section 422.12C, subsection 3, Code 1997, is amended by striking the subsection and inserting in lieu thereof the following:

3. Nonresidents or part-year residents of Iowa must determine their Iowa child and dependent care credit in the ratio of their Iowa source net income to their all source net income.

Sec. 18. Section 422.13, subsection 1A, Code 1997, is amended to read as follows:

1A. Notwithstanding any other provision in this section, a resident of this state is not required to make and file a return if the person's net income is equal to or less than the appropriate dollar amount listed in section 422.5, subsection 2, upon which tax is not imposed. A nonresident of this state is not required to make and file a return if the person's total net income in section 422.5, subsection 1, paragraph ~~"j"~~ "e", is equal to or less than the appropriate dollar amount provided in section 422.5, subsection 2, upon which tax is not imposed. For purposes of this subsection, the amount of a lump sum distribution subject to separate federal tax shall be included in net income for purposes of determining if a resident is required to file a return and the portion of the lump sum distribution that is allocable to Iowa is included in total net income for purposes of determining if a nonresident is required to make and file a return.

Sec. 19. NEW SECTION. 422.13A INCOME TAX FILING STATUS.

1. Married taxpayers who file a joint federal income tax return shall file a joint return for Iowa income tax purposes.

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2. Married taxpayers who file separate federal income tax returns shall file separately for Iowa income tax purposes.

Sec. 20. Section 422.14, subsection 1, Code 1997, is amended to read as follows:

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

Sec. 21. Section 422.15, subsection 3, Code 1997, is amended to read as follows:

3. Every fiduciary shall make a return for the individual, estate, or trust for whom or for which the fiduciary acts, and shall set forth in such return the ~~taxable~~ net income, the names and addresses of the beneficiaries, and the amounts distributed or distributable to each as reported on the federal fiduciary income tax return. Such return may be made by one or two or more joint fiduciaries.

Sec. 22. Section 422.21, unnumbered paragraphs 5 and 7, Code 1997, are amended to read as follows:

The director shall determine for the ~~1989~~ 1998 and each subsequent calendar year the annual and cumulative inflation factors for each calendar year to be applied to tax years beginning on or after January 1 of that calendar year. The director shall compute the new dollar amounts as specified to be adjusted in section 422.5 by the latest cumulative inflation factor and round off the result to the nearest one dollar. The annual and cumulative inflation factors determined by the director are not rules as defined in section 17A.2, subsection 10. ~~The-director-shall-determine-for-the-1990-calendar-year-and-each-subsequent-calendar-year-the-annual-and-cumulative-standard-deduction-factors-to-be-applied-to-tax-years-beginning-on-or-after-January-1-of-that-calendar-year.-The-director-shall-compute-the-new-dollar-amounts-of-the-standard-deductions-specified-in-section-422.9,-subsection-1,-by-the-latest-cumulative-standard-deduction-factor-and-round-off-the-result-to-the-nearest-ten-dollars.--The-annual-and-cumulative-standard-deduction-factors-determined-by-the-director-are-not-rules-as-defined-in-section-17A.2,-subsection-10.~~

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

Sec. 23. Section 422.9, Code 1997, is repealed.

DIVISION II -- COORDINATING AMENDMENTS

Sec. 24. Section 96.3, subsection 4, Code 1997, is amended to read as follows:

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

If the number of dependents is:	The weekly benefit amount shall equal the following fraction of high quarter wages:	Subject to the following maximum percentage of the statewide average weekly wage:
0	1/23	53%
1	1/22	55%
2	1/21	57%
3	1/20	60%
4 or more	1/19	65%

The maximum weekly benefit amount, if not a multiple of one dollar shall be rounded to the lower multiple of one dollar. However, until such time as sixty-five percent of the statewide average weekly wage exceeds one hundred ninety dollars, the maximum weekly benefit amounts shall be determined using the statewide average weekly wage computed on the basis of wages reported for calendar year 1981. As used in this section "dependent" means dependent as defined ~~in section-422.12,-subsection-1,-paragraph-"c"~~ for state individual income tax purposes, as if the individual claimant was a taxpayer, except that an individual claimant's nonworking spouse shall be deemed to be a dependent under this section. "Nonworking spouse" means a spouse who does not earn more than one hundred twenty dollars in gross wages in one week.

Sec. 25. Section 216B.3, subsection 15, Code 1997, is amended to read as follows:

15. Develop a plan to provide telephone yellow pages information without charge to persons declared to be blind ~~under-the-standards-in-section-422.12, subsection-1,-paragraph-"e"~~. The department may apply for federal funds to support the service. The program shall be limited in scope by the availability of funds. For the purposes of this subsection, an individual is blind only if the individual's central visual acuity does not exceed twenty-two hundredths in the better eye with correcting lenses, or if the individual's visual acuity is greater than twenty-two hundredths but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty degrees.

Sec. 26. Section 476.6, subsection 1, unnumbered paragraph 2, Code 1997, is amended to read as follows:

A subscriber of a telephone exchange or service, who is declared to be legally blind ~~under-section 422.12,-subsection-1,-paragraph-"e",~~ is exempt from any charges for telephone directory assistance that may be approved by the board. For the purposes of this paragraph, an individual is legally blind only if the individual's central visual acuity does not exceed twenty-two hundredths in the better eye with correcting lenses, or if the individual's visual acuity is greater than twenty-two hundredths but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than twenty degrees.

Sec. 27. Section 541A.2, subsection 7, unnumbered paragraph 1, Code 1997, is amended to read as follows:

An individual development account closed in accordance with this subsection is not subject to the limitations and benefits provided by this chapter but is subject to state tax in accordance with the provisions of ~~section-422.7,-subsection-28,-and~~ section 450.4, subsection 6. An individual development account may be closed for any of the following reasons:

Sec. 28. Section 541A.3, subsection 2, Code 1997, is amended by striking the subsection.

DIVISION III -- EFFECTIVE AND APPLICABILITY DATE PROVISIONS

Sec. 29. This Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to tax years beginning on or after

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January 1, 1997."
2. Title page, by striking lines 1 and 2 and inserting the following: "An Act relating to the state individual income tax by tying the computation more closely to the federal individual income tax, establishing a new rate structure, and providing an effective and retroactive applicability date provision."

By TOM VILSACK
TOM FLYNN
PATRICK J. DELUHERY

S-3196 FILED MARCH 20, 1997
RULED OUT OF ORDER
3/20/97 (P. 733)

HOUSE FILE 388

S-3198
Amend the Committee amendment, S-3193, to House File 388, as passed by the House, as follows:
1. Page 1, by striking lines 3 through 36 and inserting the following:
"___. Page 1, by striking line 27 and inserting the following: "dollars, nine and ninety-eight hundredths".
___. Title page, line 1, by inserting after the word "by" the following: "up to"."

By MICHAEL E. GRONSTAL
PATTY JUDGE
JOHN P. KIBBIE
MATT McCOY
RODNEY HALVORSON
TOM FLYNN
PATRICK J. DELUHERY
STEVEN D. HANSEN
DON GETTINGS
MIKE CONNOLLY
DICK L. DEARDEN
DENNIS H. BLACK
ROBERT E. DVORSKY
TOM VILSACK
MARY NEUHAUSER
WALLY E. HORN
JOHNIE HAMMOND
BILL FINK

S-3198 FILED MARCH 20, 1997
LOST
3/20/97

(P. 732)

HOUSE FILE 388

S-3193

Amend House File 388, as passed by the House, as follows:

1. Page 1, by striking lines 3 through 28 and inserting the following:

"a. On all taxable income from zero through one thousand dollars, ~~four-tenths~~ thirty-six hundredths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ seventy-two hundredths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and ~~seven-tenths~~ forty-three hundredths percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, ~~five~~ four and one-half percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, six and ~~eight-tenths~~ twelve hundredths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven-and-two-tenths~~ six and forty-eight hundredths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven-and-fifty-five-hundredths~~ six and eight-tenths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight-and-eight-tenths~~ seven and ninety-two hundredths percent.

i. On all taxable income exceeding forty-five thousand dollars, ~~nine~~ eight and ninety-eight hundredths percent."

2. Title page, line 1, by striking the word "fifteen" and inserting the following: "ten".

By COMMITTEE ON WAYS AND MEANS
JoANN DOUGLAS, Chairperson

S-3193 FILED MARCH 20, 1997
ADOPTED

3/20/97
(p.733)

HOUSE FILE 388

S-3199

Amend House File 388, as passed by the House, as follows:

1. Page 1, by inserting before line 29 the following:

"Sec. ___. Section 422.7, subsection 34, Code 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 thousand dollars for a person who files a separate state income tax return and up to a maximum of six 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."

2. Title page, line 2, by inserting after the word "percent" the following: ", increasing the pension deduction,".

By PATRICK DELUHERY
TOM FLYNN
DON GETTINGS
EUGENE FRAISE
RODNEY HALVORSON
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ROBERT E. DVORSKY

S-3199 FILED MARCH 20, 1997
RULED OUT OF ORDER

3/20/97

HOUSE FILE 388

S-3197

Amend House File 388, as passed by the House, as follows:

1. Page 1, by striking lines 3 through 28 and inserting the following:

"a. On all taxable income from zero through one thousand dollars, ~~four-tenths~~ three-tenths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ six-tenths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and ~~seven-tenths~~ three hundredths percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, ~~five~~ three and seventy-five hundredths percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, ~~six-and-eight-tenths~~ five and one-tenth percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven-and-two-tenths~~ five and four-tenths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven-and-fifty-five~~ five and sixty-six hundredths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight-and-eight-tenths~~ six and six-tenths percent.

i. On all taxable income exceeding forty-five thousand dollars, nine and ninety-eight hundredths percent."

2. Title page, line 1, by striking the word "fifteen" and inserting the following "up to twenty-five".

By MICHAEL E. GRONSTAL, PATTY JUDGE, PATRICK J. DELUHERY, MATT McCOY, RODNEY HALVORSON, TOM FLYNN, STEVEN D. HANSEN, WALLY E. HORN

S-3197 FILED MARCH 20, 1997
RULED OUT OF ORDER

3/20/97 (p734)

SENATE AMENDMENT TO HOUSE FILE 388

H-1274

Amend House File 388, as passed by the House, as follows:

1. Page 1, by striking lines 3 through 28 and inserting the following:

"a. On all taxable income from zero through one thousand dollars, ~~four-tenths~~ thirty-six hundredths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ seventy-two hundredths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and ~~seven-tenths~~ forty-three hundredths percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, ~~five~~ four and one-half percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, six and ~~eight-tenths~~ twelve hundredths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven-and-two-tenths~~ six and forty-eight hundredths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven-and-fifty-five-hundredths~~ six and eight-tenths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight-and-eight-tenths~~ seven and ninety-two hundredths percent.

i. On all taxable income exceeding forty-five thousand dollars, ~~nine~~ eight and ninety-eight hundredths percent."

2. Title page, line 1, by striking the word "fifteen" and inserting the following: "ten".

RECEIVED FROM THE SENATE

H-1274 FILED MARCH 24, 1997

House Concurred

(P.747)

Amend House File 388 as follows:

1. Page 1, by striking lines 3 through 29 and inserting the following:

"a. On all taxable income from zero through one thousand dollars, ~~four-tenths~~ three-tenths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ four-tenths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two ~~and-seven-tenths~~ percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, five percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, ~~six~~ five and ~~eight-tenths~~ two-tenths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven~~ five and two-tenths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven~~ six ~~and-fifty-five-hundredths~~ percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight~~ six and ~~eight-tenths~~ five-tenths percent.

i. On all taxable income exceeding forty-five thousand dollars, ~~nine~~ seven ~~and-ninety-eight hundredths~~ percent.

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

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

Sec. ___. Section 422.9, subsection 2, paragraph b, Code 1997, is amended by striking the paragraph and inserting in lieu thereof the following:

b. Add the amount of federal income taxes paid with the federal return or as a result of an adjustment to a federal return for tax years ending prior to January 1, 1997. Subtract the amount of

H-1130
Page 2

federal income tax refunds received for a tax year to the extent that the federal income tax was deducted in a previous tax year.

Sec. ___. This Act applies retroactively to January 1, 1997".

2. Title page, lines 1 and 2, by striking the words "by fifteen percent" and inserting the following: ", and eliminating the deduction for federal income taxes paid,".

By FALLON of Polk
WITT of Black Hawk

H-1130 FILED MARCH 3, 1997
Ruled not germane 3/4/97 (p. 487)

HOUSE FILE 388

H-1131

Amend House File 388 as follows:

1. Page 1, line 29, by striking the word and figures "January 1, 1998" and inserting the following: "July 1, 1997".

2. Page 1, line 30, by striking the words "that date" and inserting the following: "January 1, 1997".

By WISE of Lee

H-1131 FILED MARCH 3, 1997
Lost 3/4/97 (p. 487)

HOUSE FILE 388

H-1132

Amend House File 388 as follows:

1. Page 1, by striking lines 3 through 29 and inserting the following:

"a. On all taxable income from zero through one thousand dollars, ~~four-tenths~~ three-tenths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ four-tenths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two ~~and-seven-tenths~~ percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, ~~five~~ three and seventy-five hundredths percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, ~~six~~ four and ~~eight-tenths~~ nine-tenths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven~~ five and ~~two-tenths~~ twenty-five hundredths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven~~ five and ~~fifty-five~~ twenty-five hundredths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight~~ five and ~~eight-tenths~~ twenty-five hundredths percent.

i. On all taxable income exceeding forty-five thousand dollars, ~~nine~~ six and ~~ninety-eight-hundredths~~ eight-tenths percent.

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

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

Sec. ___. Section 422.9, subsection 2, paragraph b, Code 1997, is amended by striking the paragraph and inserting in lieu thereof the following:

b. Add the amount of federal income taxes paid

H-1132
Page 2

with the federal return or as a result of an adjustment to a federal return for tax years ending prior to January 1, 1997. Subtract the amount of federal income tax refunds received for a tax year to the extent that the federal income tax was deducted in a previous tax year.

Sec. ___. This Act applies retroactively to January 1, 1997".

2. Title page, lines 1 and 2, by striking the words "by fifteen percent" and inserting the following: ", and eliminating the deduction for federal income taxes paid,".

By BERNAU of Story
MYERS of Johnson
BELL of Jasper
BRAND of Tama
BUKTA of Clinton
BURNETT of Story
CATALDO of Polk
CHAPMAN of Linn
CHIODO of Polk
COHOON of Des Moines
CONNORS of Polk
DREES of Carroll
FALCK of Fayette
FOEGE of Linn
FORD of Polk
FREVERT of Palo Alto
HUSER of Polk
JOCHUM of Dubuque
KINZER of Scott
KOENIGS of Mitchell
KREIMAN of Davis
LARKIN of Lee
MASCHER of Johnson
MAY of Worth
MERTZ of Kossuth
MORELAND of Wapello
MUNDIE of Webster
MURPHY of Dubuque
O'BRIEN of Boone
OSTERHAUS of Jackson
REYNOLDS-KNIGHT of Van Buren
RICHARDSON of Warren
SCHERRMAN of Dubuque
SCHRADER of Marion
THOMAS of Clayton
WARNSTADT of Woodbury
WEIGEL of Chickasaw
WHITEAD of Woodbury
WISE of Lee

H-1132 FILED MARCH 3, 1997

Ruled not germane 3/4/97
Motion to suspend rules 3/4/97
" Lost 3/4/97

Rants, Chair
Dinkla
Van Fossen
Bernau
Myers

HSB 159

WAYS AND MEANS

Succeeded By

HOUSE FILE SF 388
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

An Act reducing the state individual income tax rates by fifteen percent and including an effective date provision.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

TLSB 2228HC 77
mg/jw/5

S.F. ________ H.F. ________

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

a. On all taxable income from zero through one thousand dollars, ~~four-tenths~~ thirty-four hundredths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ sixty-eight hundredths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and ~~seven-tenths~~ three-tenths percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, ~~five~~ four and twenty-five hundredths percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, ~~six~~ five and ~~eight-tenths~~ seventy-eight hundredths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven~~ six and ~~two-tenths~~ twelve-hundredths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven~~ six and ~~fifty-five~~ forty-two hundredths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight~~ seven and ~~eight-tenths~~ forty-eight hundredths percent.

i. On all taxable income exceeding forty-five thousand dollars, ~~nine~~ eight and ~~ninety-eight~~ forty-eight hundredths percent.

Sec. 2. This Act takes effect January 1, 1998, and applies to tax years beginning on or after that date.

EXPLANATION

The bill reduces the state individual income tax rates by 15 percent. The lowest and highest rates under present law are .4 percent and 9.98 percent, respectively. Under the bill these figures would be .34 percent and 8.48 percent.

The bill takes effect January 1, 1998, and applies to tax years beginning on or after that date.

HOUSE FILE 388

AN ACT

REDUCING THE STATE INDIVIDUAL INCOME TAX RATES BY TEN PERCENT AND INCLUDING AN EFFECTIVE DATE PROVISION.

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

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

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

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~eight-tenths~~ seventy-two hundredths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and ~~seven-tenths~~ forty-three hundredths percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, ~~five~~ four and one-half percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, six and ~~eight-tenths~~ twelve hundredths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~seven and two-tenths~~ six and forty-eight hundredths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~seven and fifty-five hundredths~~ six and eight-tenths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~eight and eight-tenths~~ seven and ninety-two hundredths percent.

i. On all taxable income exceeding forty-five thousand dollars, ~~nine~~ eight and ninety-eight hundredths percent.

Sec. 2. This Act takes effect January 1, 1998, and applies to tax years beginning on or after that date.

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 388, Seventy-seventh General Assembly.

ELIZABETH ISAACSON
Chief Clerk of the House

Approved March 27, 1997

TERRY E. BRANSTAD
Governor

HF 388