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SENATE FILE 26
BY RIFE

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

A BILL FOR

1 An Act relating to the individual income tax by extending the
2 special method of computation of tax for value-added S
3 corporation shareholders to all S corporation shareholders and
4 eliminating the refund limitation and providing a retroactive
5 applicability date provision.

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

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S.F. 26

1 Section 1. Section 422.4, subsection 18, Code 1997, is
2 amended by striking the subsection.

3 Sec. 2. Section 422.5, subsection 1, paragraph j,
4 subparagraph (2), Code 1997, is amended to read as follows:

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

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

35 (b) This subparagraph shall not affect the amount of the

1 taxpayer's checkoff to the Iowa election campaign fund under
2 section 56.18, the checkoff for the fish and game fund in
3 section 456A.16, the credits from tax provided in sections
4 422.10, 422.11A, and 422.12 and the allocation of these
5 credits between spouses if the taxpayers filed separate
6 returns or separately on combined returns.

7 (c) ~~For any tax year, the aggregate amount of refund~~
8 ~~claims that shall be paid pursuant to this subparagraph shall~~
9 ~~not exceed five million dollars. If, for a tax year, the~~
10 ~~aggregate amount of refund claims filed pursuant to this~~
11 ~~subparagraph exceeds five million dollars, each claim for~~
12 ~~refund shall be paid on a pro-rata basis so that the aggregate~~
13 ~~amount of refund claims does not exceed five million dollars.~~
14 ~~In the case where refund claims are not paid in full, the~~
15 ~~amount of the refund to which the taxpayer is entitled under~~
16 ~~this subparagraph is the pro-rata amount that was paid and the~~
17 ~~taxpayer is not entitled to a refund of the unpaid portion and~~
18 ~~is not entitled to carry that amount forward or backward to~~
19 ~~another tax year. Taxpayers shall not use refunds as~~
20 ~~estimated payments for the succeeding tax year. Taxpayers~~
21 ~~whose tax years begin on January 1 must file their refund~~
22 ~~claims by October 31 of the calendar year following the end of~~
23 ~~their tax year to be eligible for refunds. Taxpayers whose~~
24 ~~tax years begin on a date other than January 1 must file their~~
25 ~~refund claims by the end of the tenth month following the end~~
26 ~~of their tax years to be eligible. The department shall~~
27 ~~determine on February 1 of the second succeeding calendar year~~
28 ~~if the total amount of claims for refund exceeds five million~~
29 ~~dollars for the tax year. Notwithstanding any other~~
30 ~~provision, interest shall not be due on any refund claims that~~
31 ~~are paid by the last day of February of the second succeeding~~
32 ~~calendar year. If the claim is not payable on February 1 of~~
33 ~~the second succeeding calendar year, because the taxpayer is a~~
34 ~~fiscal year filer, then the amount of the claim allowed shall~~
35 ~~be in the same ratio as the refund claims available on~~

1 February 1 of the second succeeding calendar year. These
2 claims shall be funded by moneys appropriated for payment of
3 individual income tax refunds.

4 Sec. 3. Section 422.5, subsection 1, paragraph k,
5 unnumbered paragraph 4, Code 1997, is amended to read as
6 follows:

7 In the case of a resident, including a resident estate or
8 trust, the state's apportioned share of the state alternative
9 minimum tax is one hundred percent of the state alternative
10 minimum tax computed in this subsection. In the case of a
11 resident or part-year resident shareholder in a value-added an
12 S corporation which has in effect for the tax year an election
13 under subchapter S of the Internal Revenue Code and carries on
14 business within and without the state, a nonresident,
15 including a nonresident estate or trust, or an individual,
16 estate, or trust that is domiciled in the state for less than
17 the entire tax year, the state's apportioned share of the
18 state alternative minimum tax is the amount of tax computed
19 under this subsection, reduced by the applicable credits in
20 sections 422.10 through 422.12 and this result multiplied by a
21 fraction with a numerator of the sum of state net income
22 allocated to Iowa as determined in section 422.8, subsection
23 2, paragraph "a" or "b" as applicable, plus tax preference
24 items, adjustments, and losses under subparagraph (1)
25 attributable to Iowa and with a denominator of the sum of
26 total net income computed under section 422.7 plus all tax
27 preference items, adjustments, and losses under subparagraph
28 (1). In computing this fraction, those items excludable under
29 subparagraph (1) shall not be used in computing the tax
30 preference items. Married taxpayers electing to file separate
31 returns or separately on a combined return must allocate the
32 minimum tax computed in this subsection in the proportion that
33 each spouse's respective preference items, adjustments, and
34 losses under subparagraph (1) bear to the combined preference
35 items, adjustments, and losses under subparagraph (1) of both

1 spouses.

2 Sec. 4. Section 422.8, subsection 2, paragraph b,
3 unnumbered paragraph 1, Code 1997, is amended to read as
4 follows:

5 A resident's income allocable to Iowa is the income
6 determined under section 422.7 reduced by items of income and
7 expenses from ~~a-subchapter an~~ an S corporation ~~which-is-a-value-~~
8 ~~added-corporation~~ that carries on business within and without
9 the state when those items of income and expenses pass
10 directly to the shareholders under provisions of the Internal
11 Revenue Code. These items of income and expenses are
12 increased by the greater of the following:

13 Sec. 5. Section 422.8, subsection 6, Code 1997, is amended
14 to read as follows:

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

22 Sec. 6. This Act applies retroactively to January 1, 1997,
23 for tax years beginning on or after that date.

24 EXPLANATION

25 Present law allows shareholders of an S corporation which
26 is a value-added corporation to reduce its individual income
27 tax by use of a different method of computing the tax. The
28 difference between the regular method and the alternative
29 method constitutes a claim for refund of tax owed. However,
30 the aggregate amount of refunds shall not exceed \$5 million
31 per tax year.

32 This bill expands the opportunity for a reduction in tax to
33 shareholders of all S corporations regardless of whether they
34 are value-added corporations or not. The bill also eliminates
35 the limitation of \$5 million on the aggregate amount of claims

1 for refunds.

2 The bill applies retroactively to January 1, 1997, for tax
3 years beginning on or after that date.

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