

SENATE FILE 261  
BY CONNOLLY

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to deducting a set amount from federal adjusted  
2 gross income before deducting net operating loss in computing  
3 state net income under the state individual income tax and  
4 including a retroactive applicability date provision.

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

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S.F. 261

1 Section 1. Section 422.5, subsections 2 and 11, Code 1997,  
2 are amended by striking the subsections.

3 Sec. 2. Section 422.5, subsection 8, Code 1997, is amended  
4 to read as follows:

5 8. In addition to the other taxes imposed by this section,  
6 a tax is imposed on the amount of a lump sum distribution for  
7 which the taxpayer has elected under section 402(e) of the  
8 Internal Revenue Code to be separately taxed for federal  
9 income tax purposes for the tax year. The rate of tax is  
10 equal to twenty-five percent of the separate federal tax  
11 imposed on the amount of the lump sum distribution. A  
12 nonresident is liable for this tax only on that portion of the  
13 lump sum distribution allocable to Iowa. ~~The total amount of~~  
14 ~~the lump sum distribution subject to separate federal tax~~  
15 ~~shall be included in net income for purposes of determining~~  
16 ~~eligibility under the thirteen thousand five hundred dollar or~~  
17 ~~less or nine thousand dollar or less exclusion, as applicable.~~

18 Sec. 3. Section 422.7, unnumbered paragraph 1, Code 1997,  
19 is amended to read as follows:

20 The term "net income" means the adjusted gross income  
21 before the net operating loss deduction as properly computed  
22 for federal income tax purposes under the Internal Revenue  
23 Code minus twenty-five thousand dollars, with the following  
24 adjustments:

25 Sec. 4. Section 422.7, Code 1997, is amended by adding the  
26 following new unnumbered paragraph:

27 NEW UNNUMBERED PARAGRAPH. In computing net income if the  
28 twenty-five thousand dollars to be subtracted exceeds the  
29 federal adjusted gross income before the net operating loss  
30 deduction, such excess shall be used to offset any additions  
31 to be made under this section.

32 Sec. 5. Section 422.13, subsection 1, unnumbered paragraph  
33 1, Code 1997, is amended to read as follows:

34 ~~Except as provided in subsection 1A7-a~~ A resident or  
35 nonresident of this state shall make a return, signed in

1 accordance with forms and rules prescribed by the director, if  
2 any of the following are applicable:

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

5 Sec. 7. This Act applies retroactively to January 1, 1997,  
6 for tax years beginning on or after that date.

7 EXPLANATION

8 In computing state net income for purposes of the state  
9 individual income tax the starting point is federal adjusted  
10 gross income before the federal net operating loss deduction.  
11 The bill provides that \$25,000 shall be deducted from the  
12 federal adjusted gross income amount before determining net  
13 income. The bill strikes the provision that states that  
14 single filers making less than \$9,000 and married filers  
15 making less than \$13,500 in net income do not have to pay tax  
16 since both types of filers would be able to subtract up to  
17 \$25,000.

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

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