

3-13-97 Referred Ways & Means

FILED MAR 11 1997

SENATE FILE **392**
BY COMMITTEE ON BUSINESS
AND LABOR

(SUCCESSOR TO SSB 201)

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. 392

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

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

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Rife, Chair
Horn
Zieman

SSB - 201

Business & Labor

SENATE FILE (SF) HF ^{Introduced By} 392
BY (PROPOSED COMMITTEE ON
BUSINESS AND LABOR BILL
BY CHAIRPERSON RIFE)

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

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2 special method of computation of tax for value-added S
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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
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18 the entire tax year.

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1 taxpayer's checkoff to the Iowa election campaign fund under
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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
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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~~

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4 Sec. 3. Section 422.5, subsection 1, paragraph k,
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9 minimum tax is one hundred percent of the state alternative
10 minimum tax computed in this subsection. In the case of a
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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
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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~~ 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 and eliminates the need to file claims for
2 refunds.

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

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