

H-4 '97 W+7 and  
H-4/28/97 Amend + Do Pass  
FILED APR 23 1997 H-1974

SENATE FILE **553**  
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 267)

Passed Senate, Date 4-24-97 (p.1467) Passed House, Date 4-29-97 (p.1704)  
Vote: Ayes 45 Nays 0 Vote: Ayes 98 Nays 0

Re-passed  
47-2  
4/29/97 (p.1557)  
Approved May 19, 1997

A BILL FOR

1 An Act relating to the tax treatment of financial institutions  
2 and their shareholders which have made an election under  
3 subchapter S of the Internal Revenue Code and including a  
4 retroactive applicability date provision.

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

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S.F. 553

1 Section 1. NEW SECTION. 422.11 FRANCHISE TAX CREDIT.

2 The taxes imposed under this division, less the credits  
3 allowed under section 422.12, shall be reduced by a franchise  
4 tax credit. A taxpayer who is a shareholder in a financial  
5 institution, as defined in section 581 of the Internal Revenue  
6 Code, which has in effect for the tax year an election under  
7 subchapter S of the Internal Revenue Code shall compute the  
8 amount of the tax credit by dividing the financial institution  
9 income taxed to the taxpayer by Iowa by the taxpayer's total  
10 Iowa income and multiplying the resulting percentage times the  
11 amount of tax under this division after the deduction for the  
12 credits allowed under section 422.12. The resulting amount,  
13 which shall not exceed the taxpayer's pro rata share of the  
14 franchise tax paid by the financial institution, is the amount  
15 of the franchise tax credit allowed.

16 Sec. 2. Section 422.61, subsection 3, Code 1997, is  
17 amended by adding the following new paragraph:

18 NEW PARAGRAPH. g. Where a financial institution as  
19 defined in section 581 of the Internal Revenue Code is not  
20 subject to income tax and the shareholders of the financial  
21 institution are taxed on the financial institution's income  
22 under the provisions of the Internal Revenue Code, such tax  
23 treatment shall be disregarded and the financial institution  
24 shall compute its net income for franchise tax purposes in the  
25 same manner under this subsection as a financial institution  
26 that is subject to or liable for federal income tax under the  
27 Internal Revenue Code in effect for the applicable year.

28 Sec. 3. This Act applies retroactively to January 1, 1997,  
29 for tax years beginning on or after January 1, 1997.

30 EXPLANATION

31 The bill amends Code section 422.61 to disallow the federal  
32 treatment for Iowa individual income tax purposes where a  
33 financial institution, as defined in section 581 of the  
34 Internal Revenue Code, is not subject to income tax and where  
35 the shareholders of the financial institution are taxed on the

1 financial institutions' income on the shareholder's federal  
2 individual income tax return. This federal provision is known  
3 as a subchapter S corporation election. This amendment to  
4 Code section 422.61 is intended to prevent any discrimination  
5 in the taxation of federal obligation income of all financial  
6 institutions because income of financial institutions would  
7 only be taxed under the state franchise tax.

8 The bill provides for a franchise tax credit for  
9 individuals who are shareholders of those financial  
10 institutions that chose subchapter S tax treatment. Since the  
11 financial institution is subject to the state franchise tax on  
12 its income and the shareholder has included its pro rata share  
13 of such income in its adjusted gross income for federal tax  
14 purposes which is the shareholders net income for state tax  
15 purposes such income would be taxed twice. The credit for the  
16 shareholder prevents this. The amount of credit is determined  
17 by dividing the shareholder's pro rata financial institution's  
18 income by the shareholder's total Iowa income. This  
19 percentage is then applied to the shareholder's state tax  
20 after deduction of the personal credits and the resulting  
21 amount is subtracted from the shareholder's state tax after  
22 deduction of the personal credits.

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

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SENATE FILE 553

H-1974

1 Amend Senate File 553, as passed by the Senate, as  
2 follows:

3 1. Page 1, by striking lines 8 through 11 and  
4 inserting the following: "amount of the tax credit by  
5 recomputing the amount of tax under this division by  
6 reducing the taxable income of the taxpayer by the  
7 taxpayer's pro rata share of the items of income and  
8 expense of the financial institution and subtracting  
9 the credits allowed under section 422.12. This  
10 recomputed tax shall be subtracted from the amount of  
11 tax computed under this division after the deduction  
12 for".

*Adopted 4-29-97 (p.1704)*

By COMMITTEE ON WAYS AND MEANS  
DINKLA of Guthrie, Chairperson

H-1974 FILED APRIL 28, 1997

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HOUSE AMENDMENT TO  
SENATE FILE 553

S-3849

1 Amend Senate File 553, as passed by the Senate, as  
2 follows:

3 1. Page 1, by striking lines 8 through 11 and  
4 inserting the following: "amount of the tax credit by  
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8 expense of the financial institution and subtracting  
9 the credits allowed under section 422.12. This  
10 recomputed tax shall be subtracted from the amount of  
11 tax computed under this division after the deduction  
12 for".

RECEIVED FROM THE HOUSE

S-3849 FILED APRIL 29, 1997  
CONCURRED (p.1557)

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Redfern, Ch  
Douglas  
Vilsack

SSB 267  
Ways & Means  
Succeeded By  
SF/HF 553

SENATE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON WAYS  
AND MEANS BILL BY CHAIRPERSON  
DOUGLAS)

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

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SENATE FILE 553

AN ACT

RELATING TO THE TAX TREATMENT OF FINANCIAL INSTITUTIONS  
AND THEIR SHAREHOLDERS WHICH HAVE MADE AN ELECTION UNDER  
SUBCHAPTER S OF THE INTERNAL REVENUE CODE AND INCLUDING  
A RETROACTIVE APPLICABILITY DATE PROVISION.

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

Section 1. NEW SECTION. 422.11 FRANCHISE TAX CREDIT.

The taxes imposed under this division, less the credits allowed under section 422.12, shall be reduced by a franchise tax credit. A taxpayer who is a shareholder in a financial institution, as defined in section 581 of the Internal Revenue Code, which has in effect for the tax year an election under subchapter S of the Internal Revenue Code shall compute the amount of the tax credit by recomputing the amount of tax under this division by reducing the taxable income of the taxpayer by the taxpayer's pro rata share of the items of income and expense of the financial institution and subtracting the credits allowed under section 422.12. This recomputed tax shall be subtracted from the amount of tax computed under this division after the deduction for credits allowed under section 422.12. The resulting amount, which shall not exceed the taxpayer's pro rata share of the franchise tax paid by the financial institution, is the amount of the franchise tax credit allowed.

Sec. 2. Section 422.61, subsection 3, Code 1997, is amended by adding the following new paragraph:

NEW PARAGRAPH. g. Where a financial institution as defined in section 581 of the Internal Revenue Code is not subject to income tax and the shareholders of the financial institution are taxed on the financial institution's income under the provisions of the Internal Revenue Code, such tax

treatment shall be disregarded and the financial institution shall compute its net income for franchise tax purposes in the same manner under this subsection as a financial institution that is subject to or liable for federal income tax under the Internal Revenue Code in effect for the applicable year.

Sec. 3. This Act applies retroactively to January 1, 1997, for tax years beginning on or after January 1, 1997.

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MARY E. KRAMER  
President of the Senate

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RON J. CORBETT  
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 553, Seventy-seventh General Assembly.

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MARY PAT GUNDERSON  
Secretary of the Senate

Approved May 19, 1997

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TERRY E. BRANSTAD  
Governor