

MAR 23 1999

WAYS AND MEANS

HOUSE FILE  
BY SHOULTZ

*742*

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

**A BILL FOR**

1 An Act eliminating the deduction for federal income taxes paid,  
2 decreasing the tax rates, and increasing the amount of the net  
3 income exclusion under the 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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*HF 742*

1 Section 1. Section 422.5, subsection 1, paragraphs a  
2 through i, Code 1999, are amended to read as follows:

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

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

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

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

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

17 ~~f. c.~~ On all taxable income exceeding fifteen thousand  
18 dollars but not exceeding twenty thirty thousand dollars, six  
19 ~~and forty-eight-hundredths~~ four-tenths percent.

20 ~~g.--On-all-taxable-income-exceeding-twenty-thousand-dollars~~  
21 ~~but-not-exceeding-thirty-thousand-dollars,six-and-eight-~~  
22 ~~tenths-percent.~~

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

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

28 Sec. 2. Section 422.5, subsection 1, paragraph j, Code  
29 1999, is amended to read as follows:

30 ~~j. e.~~ (1) The tax imposed upon the taxable income of a  
31 nonresident shall be computed by reducing the amount  
32 determined pursuant to paragraphs "a" through "i" "d" by the  
33 amounts of nonrefundable credits under this division and by  
34 multiplying this resulting amount by a fraction of which the  
35 nonresident's net income allocated to Iowa, as determined in

1 section 422.8, subsection 2, paragraph "a", is the numerator  
2 and the nonresident's total net income computed under section  
3 422.7 is the denominator. This provision also applies to  
4 individuals who are residents of Iowa for less than the entire  
5 tax year.

6 (2) The tax imposed upon the taxable income of a resident  
7 shareholder in an S corporation which has in effect for the  
8 tax year an election under subchapter S of the Internal  
9 Revenue Code and carries on business within and without the  
10 state may be computed by reducing the amount determined  
11 pursuant to paragraphs "a" through "d" by the amounts of  
12 nonrefundable credits under this division and by multiplying  
13 this resulting amount by a fraction of which the resident's  
14 net income allocated to Iowa, as determined in section 422.8,  
15 subsection 2, paragraph "b", is the numerator and the  
16 resident's total net income computed under section 422.7 is  
17 the denominator. If a resident shareholder has elected to  
18 take advantage of this subparagraph, and for the next tax year  
19 elects not to take advantage of this subparagraph, the  
20 resident shareholder shall not reelect to take advantage of  
21 this subparagraph for the three tax years immediately  
22 following the first tax year for which the shareholder elected  
23 not to take advantage of this subparagraph, unless the  
24 director consents to the reelection. This subparagraph also  
25 applies to individuals who are residents of Iowa for less than  
26 the entire tax year.

27 This subparagraph shall not affect the amount of the  
28 taxpayer's checkoff to the Iowa election campaign fund under  
29 section 56.18, the checkoff for the fish and game fund in  
30 section 456A.16, the credits from tax provided in sections  
31 422.10, 422.11A, and 422.12 and the allocation of these  
32 credits between spouses if the taxpayers filed separate  
33 returns or separately on combined returns.

34 Sec. 3. Section 422.5, subsection 1, paragraph k,  
35 unnumbered paragraph 1, Code 1999, is amended to read as

1 follows:

2 There is imposed upon every resident and nonresident of  
3 this state, including estates and trusts, the greater of the  
4 tax determined in paragraphs "a" through "j" "e" or the state  
5 alternative minimum tax equal to seventy-five percent of the  
6 maximum state individual income tax rate for the tax year,  
7 rounded to the nearest one-tenth of one percent, of the state  
8 alternative minimum taxable income of the taxpayer as computed  
9 under this paragraph.

10 Sec. 4. Section 422.5, subsections 2, 6, and 8, Code 1999,  
11 are amended to read as follows:

12 2. However, the tax shall not be imposed on a resident or  
13 nonresident whose net income, as defined in section 422.7, is  
14 ~~thirteen~~ fourteen thousand five hundred dollars or less in the  
15 case of married persons filing jointly or filing separately on  
16 a combined return, unmarried heads of household, and surviving  
17 spouses or ~~nine~~ eleven thousand dollars or less in the case of  
18 all other persons; but in the event that the payment of tax  
19 under this division would reduce the net income to less than  
20 ~~thirteen~~ fourteen thousand five hundred dollars or ~~nine~~ eleven  
21 thousand dollars as applicable, then the tax shall be reduced  
22 to that amount which would result in allowing the taxpayer to  
23 retain a net income of ~~thirteen~~ fourteen thousand five hundred  
24 dollars or ~~nine~~ eleven thousand dollars as applicable. The  
25 preceding sentence does not apply to estates or trusts. For  
26 the purpose of this subsection, the entire net income,  
27 including any part of the net income not allocated to Iowa,  
28 shall be taken into account. For purposes of this subsection,  
29 net income includes all amounts of pensions or other  
30 retirement income received from any source which is not  
31 taxable under this division as a result of the government  
32 pension exclusions in section 422.7, or any other state law.  
33 If the combined net income of a husband and wife exceeds  
34 ~~thirteen~~ fourteen thousand five hundred dollars, neither of  
35 them shall receive the benefit of this subsection, and it is

1 immaterial whether they file a joint return or separate  
2 returns. However, if a husband and wife file separate returns  
3 and have a combined net income of thirteen fourteen thousand  
4 five hundred dollars or less, neither spouse shall receive the  
5 benefit of this paragraph, if one spouse has a net operating  
6 loss and elects to carry back or carry forward the loss as  
7 provided in section 422.9, subsection 3. A person who is  
8 claimed as a dependent by another person as defined in section  
9 422.12 shall not receive the benefit of this subsection if the  
10 person claiming the dependent has net income exceeding  
11 thirteen fourteen thousand five hundred dollars or nine eleven  
12 thousand dollars as applicable or the person claiming the  
13 dependent and the person's spouse have combined net income  
14 exceeding thirteen fourteen thousand five hundred dollars or  
15 nine eleven thousand dollars as applicable.

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

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

1 instructions for each tax year.

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

16 Sec. 5. Section 422.8, subsection 2, paragraph a, Code  
17 1999, is amended to read as follows:

18 a. Nonresident's net income allocated to Iowa is the net  
19 income, or portion of net income, which is derived from a  
20 business, trade, profession, or occupation carried on within  
21 this state or income from any property, trust, estate, or  
22 other source within Iowa. However, income derived from a  
23 business, trade, profession, or occupation carried on within  
24 this state and income from any property, trust, estate, or  
25 other source within Iowa shall not include distributions from  
26 pensions, including defined benefit or defined contribution  
27 plans, annuities, individual retirement accounts, and deferred  
28 compensation plans or any earnings attributable thereto so  
29 long as the distribution is directly related to an  
30 individual's documented retirement and received while the  
31 individual is a nonresident of this state. If a business,  
32 trade, profession, or occupation is carried on partly within  
33 and partly without the state, only the portion of the net  
34 income which is fairly and equitably attributable to that part  
35 of the business, trade, profession, or occupation carried on

1 within the state is allocated to Iowa for purposes of section  
2 422.5, subsection 1, paragraph "j" "e", and section 422.13 and  
3 income from any property, trust, estate, or other source  
4 partly within and partly without the state is allocated to  
5 Iowa in the same manner, except that annuities, interest on  
6 bank deposits and interest-bearing obligations, and dividends  
7 are allocated to Iowa only to the extent to which they are  
8 derived from a business, trade, profession, or occupation  
9 carried on within the state.

10 Sec. 6. Section 422.9, subsection 1, Code 1999, is amended  
11 to read as follows:

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

22 Sec. 7. Section 422.9, subsection 2, paragraph b, Code  
23 1999, is amended by striking the paragraph and inserting in  
24 lieu thereof the following:

25 b. Add the amount of federal income taxes paid with the  
26 federal return or as a result of an adjustment to a federal  
27 return for tax years ending prior to January 1, 1999.

28 Subtract the amount of federal income tax refunds received for  
29 a tax year to the extent that the federal income tax was  
30 deducted in a previous tax year.

31 Sec. 8. Section 422.11B, Code 1999, is amended to read as  
32 follows:

33 422.11B MINIMUM TAX CREDIT.

34 1. There is allowed as a credit against the tax determined  
35 in section 422.5, subsection 1, paragraphs "a" through "j"

1 "e", for a tax year an amount equal to the minimum tax credit  
2 for that tax year.

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

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

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

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

23 Sec. 9. Section 422.13, subsection 1A, Code 1999, is  
24 amended to read as follows:

25 1A. Notwithstanding any other provision in this section, a  
26 resident of this state is not required to make and file a  
27 return if the person's net income is equal to or less than the  
28 appropriate dollar amount listed in section 422.5, subsection  
29 2, upon which tax is not imposed. A nonresident of this state  
30 is not required to make and file a return if the person's  
31 total net income in section 422.5, subsection 1, paragraph "j"  
32 "e", is equal to or less than the appropriate dollar amount  
33 provided in section 422.5, subsection 2, upon which tax is not  
34 imposed. For purposes of this subsection, the amount of a  
35 lump sum distribution subject to separate federal tax shall be

1 included in net income for purposes of determining if a  
2 resident is required to file a return and the portion of the  
3 lump sum distribution that is allocable to Iowa is included in  
4 total net income for purposes of determining if a nonresident  
5 is required to make and file a return.

6 Sec. 10. APPLICABILITY. This Act applies retroactively to  
7 January 1, 1999, for tax years beginning on or after that  
8 date.

9 EXPLANATION

10 The bill eliminates the deduction for federal income taxes  
11 paid from the individual income tax and adjusts the income tax  
12 rates downward and increases the amount of the net income  
13 exclusion below which no tax is owed to offset the effect of  
14 the elimination of the deduction for federal income taxes.

15 The bill applies retroactively to January 1, 1999, for tax  
16 years beginning on or after that date.

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