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WAYS & MEANS

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SENATE FILE 2080

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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 eliminating the
2 deduction for federal income taxes paid, decreasing the tax
3 rates, increasing the amount of the net income exclusion for
4 single individuals, and including effective and retroactive
5 applicability date provisions.

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

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SF 2080
WAYS & MEANS

1 Section 1. Section 422.4, subsection 1, paragraphs b and
2 c, Code Supplement 1999, are amended to read as follows:

3 b. "Cumulative inflation factor" means the product of the
4 annual inflation factor for the ~~1988~~ 2000 calendar year and
5 all annual inflation factors for subsequent calendar years as
6 determined pursuant to this subsection. The cumulative
7 inflation factor applies to all tax years beginning on or
8 after January 1 of the calendar year for which the latest
9 annual inflation factor has been determined.

10 c. The annual inflation ~~factor~~ factors for the ~~1988~~ 2000
11 calendar year ~~is~~ and for the 2001 calendar year are one
12 hundred percent.

13 Sec. 2. Section 422.5, subsection 1, paragraphs a through
14 i, Code Supplement 1999, are amended by striking the
15 paragraphs and inserting in lieu thereof the following:

16 a. On all taxable income from zero through eight thousand
17 dollars, one and eighty-five hundredths percent.

18 b. On all taxable income exceeding eight thousand dollars
19 but not exceeding forty thousand dollars, five and three-
20 tenths percent.

21 c. On all taxable income exceeding forty thousand dollars
22 but not exceeding sixty thousand dollars, six and nine-tenths
23 percent.

24 d. On all taxable income exceeding sixty thousand dollars,
25 six and ninety-five hundredths percent.

26 Sec. 3. Section 422.5, subsection 1, paragraphs a through
27 i, Code Supplement 1999, are amended by striking the
28 paragraphs and inserting in lieu thereof the following:

29 a. On all taxable income from zero through eight thousand
30 dollars, one and eighty-five hundredths percent.

31 b. On all taxable income exceeding eight thousand dollars
32 but not exceeding forty thousand dollars, five and three-
33 tenths percent.

34 c. On all taxable income exceeding forty thousand dollars
35 but not exceeding sixty thousand dollars, six and thirty-five

1 hundredths percent.

2 d. On all taxable income exceeding sixty thousand dollars,
3 six and six-tenths percent.

4 Sec. 4. Section 422.5, subsection 1, paragraph j, Code
5 Supplement 1999, is amended to read as follows:

6 ~~j~~ e. (1) The tax imposed upon the taxable income of a
7 nonresident shall be computed by reducing the amount
8 determined pursuant to paragraphs "a" through "~~i~~" "d" by the
9 amounts of nonrefundable credits under this division and by
10 multiplying this resulting amount by a fraction of which the
11 nonresident's net income allocated to Iowa, as determined in
12 section 422.8, subsection 2, paragraph "a", is the numerator
13 and the nonresident's total net income computed under section
14 422.7 is the denominator. This provision also applies to
15 individuals who are residents of Iowa for less than the entire
16 tax year.

17 (2) The tax imposed upon the taxable income of a resident
18 shareholder in an S corporation which has in effect for the
19 tax year an election under subchapter S of the Internal
20 Revenue Code and carries on business within and without the
21 state may be computed by reducing the amount determined
22 pursuant to paragraphs "a" through "~~i~~" "d" by the amounts of
23 nonrefundable credits under this division and by multiplying
24 this resulting amount by a fraction of which the resident's
25 net income allocated to Iowa, as determined in section 422.8,
26 subsection 2, paragraph "b", is the numerator and the
27 resident's total net income computed under section 422.7 is
28 the denominator. If a resident shareholder has elected to
29 take advantage of this subparagraph, and for the next tax year
30 elects not to take advantage of this subparagraph, the
31 resident shareholder shall not reelect to take advantage of
32 this subparagraph for the three tax years immediately
33 following the first tax year for which the shareholder elected
34 not to take advantage of this subparagraph, unless the
35 director consents to the reelection. This subparagraph also

1 applies to individuals who are residents of Iowa for less than
2 the entire tax year.

3 This subparagraph shall not affect the amount of the
4 taxpayer's checkoff to the Iowa election campaign fund under
5 section 56.18, the checkoff for the fish and game fund in
6 section 456A.16, the credits from tax provided in sections
7 422.10, 422.11A, and 422.12 and the allocation of these
8 credits between spouses if the taxpayers filed separate
9 returns or separately on combined returns.

10 Sec. 5. Section 422.5, subsection 1, paragraph k, Code
11 Supplement 1999, is amended by relettering the paragraph as
12 paragraph f.

13 Sec. 6. Section 422.5, subsection 1, paragraph k,
14 unnumbered paragraph 1, Code Supplement 1999, is amended to
15 read as follows:

16 There is imposed upon every resident and nonresident of
17 this state, including estates and trusts, the greater of the
18 tax determined in paragraphs "a" through "j" "e" or the state
19 alternative minimum tax equal to seventy-five percent of the
20 maximum state individual income tax rate for the tax year,
21 rounded to the nearest one-tenth of one percent, of the state
22 alternative minimum taxable income of the taxpayer as computed
23 under this paragraph.

24 Sec. 7. Section 422.5, subsections 2, 5, and 7, Code
25 Supplement 1999, are amended to read as follows:

26 2. However, the tax shall not be imposed on a resident or
27 nonresident whose net income, as defined in section 422.7, is
28 thirteen thousand five hundred dollars or less in the case of
29 married persons filing jointly or filing separately on a
30 combined return, unmarried heads of household, and surviving
31 spouses or nine ten thousand dollars or less in the case of
32 all other persons; but in the event that the payment of tax
33 under this division would reduce the net income to less than
34 thirteen thousand five hundred dollars or nine ten thousand
35 dollars as applicable, then the tax shall be reduced to that

1 amount which would result in allowing the taxpayer to retain a
2 net income of thirteen thousand five hundred dollars or ~~nine~~
3 ten thousand dollars as applicable. The preceding sentence
4 does not apply to estates or trusts. For the purpose of this
5 subsection, the entire net income, including any part of the
6 net income not allocated to Iowa, shall be taken into account.
7 For purposes of this subsection, net income includes all
8 amounts of pensions or other retirement income received from
9 any source which is not taxable under this division as a
10 result of the government pension exclusions in section 422.7,
11 or any other state law. If the combined net income of a
12 husband and wife exceeds thirteen thousand five hundred
13 dollars, neither of them shall receive the benefit of this
14 subsection, and it is immaterial whether they file a joint
15 return or separate returns. However, if a husband and wife
16 file separate returns and have a combined net income of
17 thirteen thousand five hundred dollars or less, neither spouse
18 shall receive the benefit of this paragraph, if one spouse has
19 a net operating loss and elects to carry back or carry forward
20 the loss as provided in section 422.9, subsection 3. A person
21 who is claimed as a dependent by another person as defined in
22 section 422.12 shall not receive the benefit of this
23 subsection if the person claiming the dependent has net income
24 exceeding thirteen thousand five hundred dollars or ~~nine~~ ten
25 thousand dollars as applicable or the person claiming the
26 dependent and the person's spouse have combined net income
27 exceeding thirteen thousand five hundred dollars or ~~nine~~ ten
28 thousand dollars as applicable.

29 In addition, if the married persons', filing jointly or
30 filing separately on a combined return, unmarried head of
31 household's, or surviving spouse's net income exceeds thirteen
32 thousand five hundred dollars, the regular tax imposed under
33 this division shall be the lesser of the maximum state
34 individual income tax rate times the portion of the net income
35 in excess of thirteen thousand five hundred dollars or the

1 regular tax liability computed without regard to this
2 sentence. Taxpayers electing to file separately shall compute
3 the alternate tax described in this paragraph using the total
4 net income of the husband and wife. The alternate tax
5 described in this paragraph does not apply if one spouse
6 elects to carry back or carry forward the loss as provided in
7 section 422.9, subsection 3.

8 5. Upon determination of the latest cumulative inflation
9 factor, the director shall multiply each dollar amount set
10 forth in subsection 1, paragraphs "a" through "d" of this
11 section by this cumulative inflation factor, shall round off
12 the resulting product to the nearest one dollar, and shall
13 incorporate the result into the income tax forms and
14 instructions for each tax year.

15 7. In addition to the other taxes imposed by this section,
16 a tax is imposed on the amount of a lump sum distribution for
17 which the taxpayer has elected under section 402(e) of the
18 Internal Revenue Code to be separately taxed for federal
19 income tax purposes for the tax year. The rate of tax is
20 equal to twenty-five percent of the separate federal tax
21 imposed on the amount of the lump sum distribution. A
22 nonresident is liable for this tax only on that portion of the
23 lump sum distribution allocable to Iowa. The total amount of
24 the lump sum distribution subject to separate federal tax
25 shall be included in net income for purposes of determining
26 eligibility under the thirteen thousand five hundred dollar or
27 less or ~~nine~~ ten thousand dollar or less exclusion, as
28 applicable.

29 Sec. 8. Section 422.8, subsection 2, paragraph a, Code
30 1999, is amended to read as follows:

31 a. Nonresident's net income allocated to Iowa is the net
32 income, or portion of net income, which is derived from a
33 business, trade, profession, or occupation carried on within
34 this state or income from any property, trust, estate, or
35 other source within Iowa. However, income derived from a

1 business, trade, profession, or occupation carried on within
2 this state and income from any property, trust, estate, or
3 other source within Iowa shall not include distributions from
4 pensions, including defined benefit or defined contribution
5 plans, annuities, individual retirement accounts, and deferred
6 compensation plans or any earnings attributable thereto so
7 long as the distribution is directly related to an
8 individual's documented retirement and received while the
9 individual is a nonresident of this state. If a business,
10 trade, profession, or occupation is carried on partly within
11 and partly without the state, only the portion of the net
12 income which is fairly and equitably attributable to that part
13 of the business, trade, profession, or occupation carried on
14 within the state is allocated to Iowa for purposes of section
15 422.5, subsection 1, paragraph "j" "e", and section 422.13 and
16 income from any property, trust, estate, or other source
17 partly within and partly without the state is allocated to
18 Iowa in the same manner, except that annuities, interest on
19 bank deposits and interest-bearing obligations, and dividends
20 are allocated to Iowa only to the extent to which they are
21 derived from a business, trade, profession, or occupation
22 carried on within the state.

23 Sec. 9. Section 422.8, subsection 4, Code 1999, is amended
24 to read as follows:

25 4. The amount of minimum tax paid to another state or
26 foreign country by a resident taxpayer of this state from
27 preference items derived from sources outside of Iowa shall be
28 allowed as a credit against the tax computed under this
29 division except that the credit shall not exceed what the
30 amount of state alternative minimum tax would have been on the
31 same preference items which were taxed by the other state or
32 foreign country. The limitation on this credit shall be
33 computed according to the following formula: The total of
34 preference items earned outside of Iowa and taxed by another
35 state or foreign country shall be divided by the total of

1 preference items of the resident taxpayer of Iowa. In
2 computing this quotient, those items excludable under section
3 422.5, subsection 1, paragraph "k" "f", subparagraph (1) shall
4 not be used in computing the preference items. This quotient
5 multiplied times the net state alternative minimum tax as
6 determined in section 422.5, subsection 1, paragraph "k" "f"
7 on the total of preference items as if entirely earned in Iowa
8 shall be the maximum tax credit against the Iowa alternative
9 minimum tax. However, the maximum tax credit will not be
10 allowed to the extent that the minimum tax imposed by the
11 other state or foreign country is less than the maximum tax
12 credit computed above.

13 Sec. 10. Section 422.9, subsection 1, Code Supplement
14 1999, is amended to read as follows:

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

25 Sec. 11. Section 422.9, subsection 1, Code Supplement
26 1999, is amended to read as follows:

27 1. An optional standard deduction~~7-after-deduction-of~~
28 ~~federal-income-tax~~₇ equal to one thousand two hundred thirty
29 dollars for a married person who files separately or a single
30 person or equal to three thousand thirty dollars for a husband
31 and wife who file a joint return, a surviving spouse, or an
32 unmarried head of household. ~~The-optional-standard-deduction~~
33 ~~shall-not-exceed-the-amount-remaining-after-deduction-of-the~~
34 ~~federal-income-tax~~.

35 Sec. 12. Section 422.9, subsection 2, paragraph b, Code

1 Supplement 1999, is amended by striking the paragraph and
2 inserting in lieu thereof the following:

3 b. Add the amount of federal income taxes paid or accrued,
4 as the case may be, to the extent the federal tax payment is
5 for a tax year beginning prior to January 1, 2000. Subtract
6 the amount of federal income tax refunds received in a tax
7 year to the extent that the federal income tax was deducted on
8 an Iowa individual income tax return for a tax year beginning
9 prior to January 1, 2000.

10 Sec. 13. Section 422.9, subsection 2, paragraph b, Code
11 Supplement 1999, is amended by striking the paragraph.

12 Sec. 14. Section 422.11B, Code 1999, is amended to read as
13 follows:

14 422.11B MINIMUM TAX CREDIT.

15 1. There is allowed as a credit against the tax determined
16 in section 422.5, subsection 1, paragraphs "a" through "j" "e"
17 for a tax year an amount equal to the minimum tax credit for
18 that tax year.

19 The minimum tax credit for a tax year is the excess, if
20 any, of the adjusted net minimum tax imposed for all prior tax
21 years beginning on or after January 1, 1987, over the amount
22 allowable as a credit under this section for those prior tax
23 years.

24 2. The allowable credit under subsection 1 for a tax year
25 shall not exceed the excess, if any, of the tax determined in
26 section 422.5, subsection 1, paragraphs "a" through "j" "e"
27 over the state alternative minimum tax as determined in
28 section 422.5, subsection 1, paragraph "k" "f".

29 The net minimum tax for a tax year is the excess, if any,
30 of the tax determined in section 422.5, subsection 1,
31 paragraph "k" "f" for the tax year over the tax determined in
32 section 422.5, subsection 1, paragraphs "a" through "j" "e"
33 for the tax year.

34 The adjusted net minimum tax for a tax year is the net
35 minimum tax for the tax year reduced by the amount which would

1 be the net minimum tax if the only item of tax preference
2 taken into account was that described in paragraph (6) of
3 section 57(a) of the Internal Revenue Code.

4 Sec. 15. Section 422.13, subsection 1A, Code Supplement
5 1999, is amended to read as follows:

6 1A. Notwithstanding any other provision in this section, a
7 resident of this state is not required to make and file a
8 return if the person's net income is equal to or less than the
9 appropriate dollar amount listed in section 422.5, subsection
10 2, upon which tax is not imposed. A nonresident of this state
11 is not required to make and file a return if the person's
12 total net income in section 422.5, subsection 1, paragraph "j"
13 "e", is equal to or less than the appropriate dollar amount
14 provided in section 422.5, subsection 2, upon which tax is not
15 imposed. For purposes of this subsection, the amount of a
16 lump sum distribution subject to separate federal tax shall be
17 included in net income for purposes of determining if a
18 resident is required to file a return and the portion of the
19 lump sum distribution that is allocable to Iowa is included in
20 total net income for purposes of determining if a nonresident
21 is required to make and file a return.

22 Sec. 16. Section 422.21, unnumbered paragraph 5, Code
23 Supplement 1999, is amended to read as follows:

24 The director shall determine for the ~~1989~~ 2000 calendar
25 year and each subsequent calendar year the annual and
26 cumulative inflation factors for each calendar year to be
27 applied to tax years beginning on or after January 1 of that
28 calendar year. The director shall compute the new dollar
29 amounts as specified to be adjusted in section 422.5 by the
30 latest cumulative inflation factor and round off the result to
31 the nearest one dollar. The annual and cumulative inflation
32 factors determined by the director are not rules as defined in
33 section 17A.2, subsection 11. The director shall determine
34 for the 1990 calendar year and each subsequent calendar year
35 the annual and cumulative standard deduction factors to be

1 applied to tax years beginning on or after January 1 of that
2 calendar year. The director shall compute the new dollar
3 amounts of the standard deductions specified in section 422.9,
4 subsection 1, by the latest cumulative standard deduction
5 factor and round off the result to the nearest ten dollars.
6 The annual and cumulative standard deduction factors
7 determined by the director are not rules as defined in section
8 17A.2, subsection 11.

9 Sec. 17. EFFECTIVE AND APPLICABILITY DATES.

10 1. This Act, being deemed of immediate importance, takes
11 effect upon enactment and applies retroactively to January 1,
12 2000, for tax years beginning on or after that date, except as
13 otherwise provided in this section.

14 2. Sections 2, 10, and 12 of this Act apply retroactively
15 to January 1, 2000, for tax years beginning in the 2000
16 calendar year.

17 3. Sections 3, 11, and 13 of this Act take effect January
18 1, 2001, for tax years beginning on or after that date.

19 EXPLANATION

20 This bill eliminates the deduction for federal income taxes
21 under the individual income tax, although federal income tax
22 paid in the 2000 tax year for any prior tax year may still be
23 deducted. Federal income tax refunds received in the 2000 tax
24 year will be reported on the Iowa return to the extent the tax
25 refund was deducted on a prior Iowa return. The individual
26 income tax rates are adjusted downward in sections 2 and 3 of
27 the bill. Section 2 includes the tax rates that will apply
28 only for tax years that begin in the 2000 calendar year.
29 Section 3 of the bill includes the permanent adjusted rates
30 that will be in effect for tax years beginning on or after
31 January 1, 2001, and will be indexed for inflation starting in
32 the 2002 tax year. The net income exclusion for single
33 taxpayers is increased from \$9,000 to \$10,000. A number of
34 coordinating amendments are included.

35 The bill contains effective date provisions, including

1 retroactive applicability date provisions.

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