

MAR 26 2004
EDUCATION

HOUSE FILE 2556
BY FALLON

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

A BILL FOR

1 An Act relating to education funding by providing for the
2 establishment of the state percent of growth for purposes of
3 the state school foundation program; making appropriations to
4 the department of education for community college funding and
5 at-risk children's programs; making appropriations to the
6 state board of regents; making an appropriation to the college
7 student aid commission for tuition grants; increasing
8 individual income tax rates, altering the methods for taxation
9 of capital gains and income for shareholders of S
10 corporations, requiring combined corporate returns of unitary
11 businesses, and eliminating certain job creation tax
12 incentives; eliminating certain sales and use tax exemptions;
13 increasing the tax on insurance premiums; transferring certain
14 use tax revenues to the general fund of the state; providing
15 for the elimination of specified funding reductions for area
16 education agencies; and including effective and retroactive
17 applicability date provisions.

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

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HF 2556

1 DIVISION I
2 STATE PERCENT OF GROWTH

3 Section 1. Section 257.8, subsection 1, Code Supplement
4 2003, is amended to read as follows:

5 1. STATE PERCENT OF GROWTH. The state percent of growth
6 for the budget year beginning July 1, 2003, is two percent.
7 The state percent of growth for the budget year beginning July
8 1, 2004, is two six percent. The state percent of growth for
9 each subsequent budget year shall be established by statute
10 which shall be enacted within thirty days of the submission in
11 the year preceding the base year of the governor's budget
12 under section 8.21. The establishment of the state percent of
13 growth for a budget year shall be the only subject matter of
14 the bill which enacts the state percent of growth for a budget
15 year.

16 Sec. 2. APPLICABILITY DATE. This division shall be
17 applicable for computing state aid under the state school
18 foundation program for the school budget year beginning July
19 1, 2004.

20 Sec. 3. EFFECTIVE DATE. This division, being deemed of
21 immediate importance, takes effect upon enactment.

22 DIVISION II
23 COMMUNITY COLLEGES

24 Sec. 4. There is appropriated from the general fund of the
25 state to the department of education for the fiscal year
26 beginning July 1, 2004, and ending June 30, 2005, the
27 following amount, or so much thereof as may be necessary, to
28 be used for the purposes designated:

29 For general state financial aid to merged areas as defined
30 in section 260C.2, for vocational education programs in
31 accordance with chapters 258 and 260C:
32 \$147,582,047

33 The funds appropriated in this subsection shall be
34 allocated as follows:

35 a. Merged Area I \$ 7,193,209

| | | |
|----|---------------------------|---------------|
| 1 | b. Merged Area II | \$ 8,136,366 |
| 2 | c. Merged Area III | \$ 7,600,107 |
| 3 | d. Merged Area IV | \$ 3,670,204 |
| 4 | e. Merged Area V | \$ 8,015,816 |
| 5 | f. Merged Area VI | \$ 7,142,277 |
| 6 | g. Merged Area VII | \$ 10,530,666 |
| 7 | h. Merged Area IX | \$ 13,020,106 |
| 8 | i. Merged Area X | \$ 20,883,389 |
| 9 | j. Merged Area XI | \$ 21,903,444 |
| 10 | k. Merged Area XII | \$ 8,609,947 |
| 11 | l. Merged Area XIII | \$ 8,743,547 |
| 12 | m. Merged Area XIV | \$ 3,744,512 |
| 13 | n. Merged Area XV | \$ 11,726,862 |
| 14 | o. Merged Area XVI | \$ 6,661,595 |

DIVISION III

PROGRAMS FOR AT-RISK CHILDREN

17 Sec. 5. Section 279.51, subsection 1, unnumbered paragraph
 18 1, Code 2003, is amended to read as follows:

19 There is appropriated from the general fund of the state to
 20 the department of education for the fiscal year beginning July
 21 1, 2000, and each succeeding fiscal year, the sum of ~~twelve~~
 22 fourteen million five hundred sixty thousand dollars.

23 Sec. 6. Section 279.51, subsection 1, paragraph b, Code
 24 2003, is amended to read as follows:

25 b. For the fiscal year beginning July 1, 1998, and for
 26 each succeeding fiscal year, ~~eight~~ ten million five hundred
 27 ten thousand dollars of the funds appropriated shall be
 28 allocated to the child development coordinating council
 29 established in chapter 256A for the purposes set out in
 30 subsection 2 of this section and section 256A.3.

DIVISION IV

STATE BOARD OF REGENTS

33 Sec. 7. There is appropriated from the general fund of the
 34 state to the state board of regents for the fiscal year
 35 beginning July 1, 2004, and ending June 30, 2005, the

1 following amounts, or so much thereof as may be necessary, to
2 be used for the purposes designated:

3 1. OFFICE OF STATE BOARD OF REGENTS

4 a. For salaries, support, maintenance, and miscellaneous
5 purposes:

6 \$ 1,190,152

7 b. For allocation by the state board of regents to the
8 state university of Iowa, the Iowa state university of science
9 and technology, and the university of northern Iowa to
10 reimburse the institutions for deficiencies in their operating
11 funds resulting from the pledging of tuitions, student fees
12 and charges, and institutional income to finance the cost of
13 providing academic and administrative buildings and facilities
14 and utility services at the institutions:

15 \$ 12,701,278

16 Notwithstanding section 8.33, funds appropriated for
17 purposes of this lettered paragraph that remain unencumbered
18 or unobligated on June 30, 2005, shall not revert to the
19 general fund of the state, but shall be available for
20 expenditure for the following fiscal year for purposes
21 specified in this lettered paragraph.

22 c. For funds to be allocated to the southwest Iowa
23 graduate studies center:

24 \$ 108,673

25 d. For funds to be allocated to the siouxland interstate
26 metropolitan planning council for the tristate graduate center
27 under section 262.9, subsection 21:

28 \$ 79,940

29 e. For funds to be allocated to the quad-cities graduate
30 studies center:

31 \$ 161,173

32 2. STATE UNIVERSITY OF IOWA

33 a. General university, including lakeside laboratory

34 For salaries, support, maintenance, equipment, and
35 miscellaneous purposes:

1 \$276,520,093
2 b. University hospitals
3 For salaries, support, maintenance, equipment, and
4 miscellaneous purposes and for medical and surgical treatment
5 of indigent patients as provided in chapter 255, and for
6 medical education:
7 \$ 27,984,189
8 c. Psychiatric hospital
9 For salaries, support, maintenance, equipment,
10 miscellaneous purposes, and for the care, treatment, and
11 maintenance of committed and voluntary public patients:
12 \$ 7,223,647
13 d. Center for disabilities and development
14 For salaries, support, maintenance, and miscellaneous
15 purposes:
16 \$ 6,526,426
17 e. Oakdale campus
18 For salaries, support, maintenance, and miscellaneous
19 purposes:
20 \$ 2,725,472
21 f. State hygienic laboratory
22 For salaries, support, maintenance, and miscellaneous
23 purposes:
24 \$ 3,900,021
25 g. Family practice program
26 For allocation by the dean of the college of medicine, with
27 approval of the advisory board, to qualified participants, to
28 carry out chapter 148D for the family practice program,
29 including salaries and support:
30 \$ 2,129,177
31 h. Child health care services
32 For specialized child health care services, including
33 childhood cancer diagnostic and treatment network programs,
34 rural comprehensive care for hemophilia patients, and the Iowa
35 high-risk infant follow-up program, including salaries and

1 support:
2 \$ 665,709
3 i. Statewide cancer registry
4 For the statewide cancer registry:
5 \$ 183,322
6 j. Substance abuse consortium
7 For funds to be allocated to the Iowa consortium for
8 substance abuse research and evaluation:
9 \$ 66,534
10 k. Center for biocatalysis
11 For the center for biocatalysis:
12 \$ 903,984
13 l. Primary health care initiative
14 For the primary health care initiative in the college of
15 medicine:
16 \$ 779,359
17 m. Birth defects registry
18 For the birth defects registry:
19 \$ 45,781
20 3. IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY
21 a. General university
22 For salaries, support, maintenance, equipment, and
23 miscellaneous purposes:
24 \$217,686,641
25 b. Agricultural experiment station
26 For salaries, support, maintenance, and miscellaneous
27 purposes:
28 \$ 31,814,892
29 c. Cooperative extension service in agriculture and home
30 economics
31 For salaries, support, maintenance, and miscellaneous
32 purposes:
33 \$ 20,244,546
34 d. Leopold center
35 For agricultural research grants at Iowa state university

1 under section 266.39B:
2 \$ 476,225
3 e. Livestock disease research
4 For deposit in and the use of the livestock disease
5 research fund under section 267.8:
6 \$ 226,367
7 4. UNIVERSITY OF NORTHERN IOWA
8 a. General university
9 For salaries, support, maintenance, equipment, and
10 miscellaneous purposes:
11 \$ 97,950,925
12 b. Recycling and reuse center
13 For purposes of the recycling and reuse center:
14 \$ 217,290
15 5. STATE SCHOOL FOR THE DEAF
16 For salaries, support, maintenance, and miscellaneous
17 purposes:
18 \$ 10,132,297
19 6. IOWA BRAILLE AND SIGHT SAVING SCHOOL
20 For salaries, support, maintenance, and miscellaneous
21 purposes:
22 \$ 5,669,244
23 7. TUITION AND TRANSPORTATION COSTS
24 For payment to local school boards for the tuition and
25 transportation costs of students residing in the Iowa braille
26 and sight saving school and the state school for the deaf
27 pursuant to section 262.43 and for payment of certain
28 clothing, prescription, and transportation costs for students
29 at these schools pursuant to section 270.5:
30 \$ 7,500

DIVISION V

COLLEGE STUDENT AID COMMISSION -- TUITION GRANTS

33 Sec. 8. Section 261.25, subsection 1, Code Supplement
34 2003, is amended to read as follows:
35 1. There is appropriated from the general fund of the

1 state to the commission for each fiscal year the sum of forty-
2 ~~six~~ forty-eight million four eight hundred seventeen thirty
3 thousand ~~nine-hundred-sixty-four~~ seventy-five dollars for
4 tuition grants.

5 DIVISION VI

6 INCOME TAX

7 Sec. 9. Section 422.5, subsection 1, paragraphs a through
8 i, Code Supplement 2003, are amended to read as follows:

9 a. On all taxable income from zero through one thousand
10 dollars, ~~thirty-six-hundredths~~ four-tenths of one percent.

11 b. On all taxable income exceeding one thousand dollars
12 but not exceeding two thousand dollars, ~~seventy-two-hundredths~~
13 eight-tenths of one percent.

14 c. On all taxable income exceeding two thousand dollars
15 but not exceeding four thousand dollars, two and ~~forty-three~~
16 hundredths seven-tenths percent.

17 d. On all taxable income exceeding four thousand dollars
18 but not exceeding nine thousand dollars, ~~four-and-one-half~~
19 five percent.

20 e. On all taxable income exceeding nine thousand dollars
21 but not exceeding fifteen thousand dollars, six and ~~twelve~~
22 hundredths eight-tenths percent.

23 f. On all taxable income exceeding fifteen thousand
24 dollars but not exceeding twenty thousand dollars, ~~six-and~~
25 ~~forty-eight-hundredths~~ seven and two-tenths percent.

26 g. On all taxable income exceeding twenty thousand dollars
27 but not exceeding thirty thousand dollars, ~~six-and-eight-~~
28 ~~tenths~~ seven and fifty-five hundredths percent.

29 h. On all taxable income exceeding thirty thousand dollars
30 but not exceeding forty-five thousand dollars, ~~seven-and~~
31 ~~ninety-two-hundredths~~ eight and eight-tenths percent.

32 i. On all taxable income exceeding forty-five thousand
33 dollars, ~~eight~~ nine and ninety-eight hundredths percent.

34 Sec. 10. Section 422.5, subsection 1, paragraph j, Code
35 Supplement 2003, is amended to read as follows:

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

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

33 This subparagraph shall not affect the amount of the
34 taxpayer's checkoff to the Iowa election campaign fund under
35 section 68A.601, the checkoff for the fish and game fund in

~~1 section-456A.16,-the-credits-from-tax-provided-in-sections
2 422.10,-422.11A,-and-422.12-and-the-allocation-of-these
3 credits-between-spouses-if-the-taxpayers-filed-separate
4 returns-or-separately-on-combined-returns-~~

5 Sec. 11. Section 422.5, subsection 1, paragraph k,
6 unnumbered paragraph 4, Code Supplement 2003, is amended to
7 read as follows:

8 In the case of a resident, including a resident estate or
9 trust, the state's apportioned share of the state alternative
10 minimum tax is one hundred percent of the state alternative
11 minimum tax computed in this subsection. In the case of a
12 ~~resident-or-part-year-resident-shareholder-in-an-S-corporation~~
13 ~~which-has-in-effect-for-the-tax-year-an-election-under~~
14 ~~subchapter-S-of-the-Internal-Revenue-Code-and-carries-on~~
15 ~~business-within-and-without-the-state,~~ a nonresident,
16 including a nonresident estate or trust, or an individual,
17 estate, or trust that is domiciled in the state for less than
18 the entire tax year, the state's apportioned share of the
19 state alternative minimum tax is the amount of tax computed
20 under this subsection, reduced by the applicable credits in
21 sections 422.10 through 422.12 and this result multiplied by a
22 fraction with a numerator of the sum of state net income
23 allocated to Iowa as determined in section 422.8, subsection
24 2, ~~paragraph-"a"-or-"b"-as-applicable,~~ plus tax preference
25 items, adjustments, and losses under subparagraph (1)
26 attributable to Iowa and with a denominator of the sum of
27 total net income computed under section 422.7 plus all tax
28 preference items, adjustments, and losses under subparagraph
29 (1). In computing this fraction, those items excludable under
30 subparagraph (1) shall not be used in computing the tax
31 preference items. Married taxpayers electing to file separate
32 returns or separately on a combined return must allocate the
33 minimum tax computed in this subsection in the proportion that
34 each spouse's respective preference items, adjustments, and
35 losses under subparagraph (1) bear to the combined preference

1 items, adjustments, and losses under subparagraph (1) of both
2 spouses.

3 Sec. 12. Section 422.7, subsection 21, Code Supplement
4 2003, is amended by striking the subsection.

5 Sec. 13. Section 422.8, subsection 2, Code Supplement
6 2003, is amended to read as follows:

7 2. ~~a-~~ Nonresident's net income allocated to Iowa is the
8 net income, or portion of net income, which is derived from a
9 business, trade, profession, or occupation carried on within
10 this state or income from any property, trust, estate, or
11 other source within Iowa. However, income derived from a
12 business, trade, profession, or occupation carried on within
13 this state and income from any property, trust, estate, or
14 other source within Iowa shall not include distributions from
15 pensions, including defined benefit or defined contribution
16 plans, annuities, individual retirement accounts, and deferred
17 compensation plans or any earnings attributable thereto so
18 long as the distribution is directly related to an
19 individual's documented retirement and received while the
20 individual is a nonresident of this state. If a business,
21 trade, profession, or occupation is carried on partly within
22 and partly without the state, only the portion of the net
23 income which is fairly and equitably attributable to that part
24 of the business, trade, profession, or occupation carried on
25 within the state is allocated to Iowa for purposes of section
26 422.5, subsection 1, paragraph "j", and section 422.13 and
27 income from any property, trust, estate, or other source
28 partly within and partly without the state is allocated to
29 Iowa in the same manner, except that annuities, interest on
30 bank deposits and interest-bearing obligations, and dividends
31 are allocated to Iowa only to the extent to which they are
32 derived from a business, trade, profession, or occupation
33 carried on within the state.

34 ~~b---A-resident's-income-allocable-to-Iowa-is-the-income~~
35 ~~determined-under-section-422.7-reduced-by-items-of-income-and~~

1 expenses from an S corporation that carries on business within
2 and without the state when those items of income and expenses
3 pass directly to the shareholders under provisions of the
4 Internal Revenue Code. -- These items of income and expenses are
5 increased by the greater of the following:

6 (1) -- The net income or loss of the corporation which is
7 fairly and equitably attributable to this state under section
8 422.33, subsections 2 and 3.

9 (2) -- Any cash or the value of property distributions which
10 are made only to the extent that they are paid from income
11 upon which Iowa income tax has not been paid, as determined
12 under rules of the director, reduced by the amount of any of
13 these distributions that are made to enable the shareholder to
14 pay federal income tax on items of income, loss, and expenses
15 from the corporation.

16 Sec. 14. Section 422.8, subsection 6, Code Supplement
17 2003, is amended by striking the subsection.

18 Sec. 15. Section 422.37, Code 2003, is amended by striking
19 the section and inserting in lieu thereof the following:

20 422.37 COMBINED RETURNS.

21 An affiliated group of corporations shall, under rules
22 prescribed by the director, file a combined return showing the
23 net income of all corporations engaged in a unitary business,
24 subject to the following:

25 1. The affiliated group filing under this section shall
26 meet the requirements to file a consolidated return for
27 federal income tax purposes under the Internal Revenue Code
28 for the same taxable year.

29 2. All members of the affiliated group shall join in the
30 filing of an Iowa combined return to the extent they are
31 engaged in a unitary business.

32 3. Members of the affiliated group exempt from taxation by
33 section 422.34 shall not be included in a combined return.

34 4. All members of the affiliated group shall use the
35 statutory method of allocation and apportionment unless the

1 director has granted permission to all members to use an
2 alternative method of allocation and apportionment.

3 5. The computation of federal taxable income before the
4 net operating loss deduction on a combined return for members
5 of an affiliated group shall be made in the same manner and
6 under the same procedures, including all intercompany
7 adjustments and eliminations, as are required for
8 consolidating the incomes of affiliated corporations for the
9 taxable year for federal income tax purposes in accordance
10 with the Internal Revenue Code.

11 6. The combined income approach reflects the federal
12 taxable income of the unitary members of the Iowa affiliated
13 group as a single economic unit, with the application of the
14 adjustments in section 422.35, and the affiliated group shall
15 only file one income tax return. Any nonunitary members of
16 the federal affiliated group subject to tax imposed by section
17 422.33 must each file its own separate corporate income tax
18 return. The net income of an affiliated group is determined
19 by applying the apportionment formula against the combined
20 income of the affiliated group.

21 7. Only the sales of those corporations in the affiliated
22 group subject to the tax imposed by section 422.33 are
23 included in the numerator of the apportionment formula.

24 8. Only those corporations in the affiliated group subject
25 to the tax imposed by section 422.33 are jointly and severally
26 liable for the Iowa tax of the combined group.

27 Sec. 16. EFFECTIVE AND APPLICABILITY DATES. This division
28 of this Act, being deemed of immediate importance, takes
29 effect upon enactment and applies as follows:

30 1. The section of this division amending section 422.5,
31 subsection 1, paragraphs "a" through "i", apply to tax years
32 beginning on or after January 1, 2005.

33 2. The section of this division amending section 422.5,
34 subsection 1, paragraphs "j" and "k", and section 422.8 apply
35 retroactively to January 1, 2004, for tax years beginning on

1 or after that date.

2 3. The section of this division amending section 422.7
3 applies retroactively to January 1, 2004, for tax years
4 beginning on or after that date.

5 4. The section of this division amending section 422.37
6 applies retroactively to January 1, 2004, for tax years
7 beginning on or after that date.

8 DIVISION VII

9 SALES AND USE TAXES

10 Sec. 17. Section 423.3, subsection 27, as enacted by 2003
11 Iowa Acts, First Extraordinary Session, chapter 2, section 96,
12 is amended to read as follows:

13 27. The sales price of tangible personal property sold, or
14 of services furnished, to a nonprofit hospital licensed
15 pursuant to chapter 135B which is located in a rural county to
16 be used in the operation of the hospital. For purposes of
17 this exemption, "rural county" is a county with a population
18 of not more than fifty thousand according to the latest
19 federal census.

20 Sec. 18. Section 423.3, subsections 51, 66, 67, 74, 75,
21 76, and 77, as enacted by 2003 Iowa Acts, First Extraordinary
22 Session, chapter 2, section 96, are amended by striking the
23 subsections.

24 Sec. 19. Section 423.3, subsection 45, as enacted by 2003
25 Iowa Acts, First Extraordinary Session, chapter 2, section 96,
26 is amended by striking the subsection and inserting in lieu
27 thereof the following:

28 45. The sales price from the sales by a trade shop to a
29 printer of lithographic-offset plates, photoengraved plates,
30 engravings, negatives, color separations, typesetting, the end
31 products of image modulation, or any base material used as a
32 carrier for light-sensitive emulsions to be used by the
33 printer to complete a finished product for sale at retail.
34 For purposes of this subsection, "trade shop" means a business
35 which is not normally engaged in printing and which sells

1 supplies to printers, including but not limited to, those
2 supplies enumerated in this subsection.

3 Sec. 20. Section 423.6, subsections 17 through 21, as
4 enacted by 2003 Iowa Acts, First Extraordinary Session,
5 chapter 2, section 99, are amended by striking the
6 subsections.

7 DIVISION VIII

8 INSURANCE PREMIUMS TAXES

9 Sec. 21. Section 432.1, subsection 1, paragraph a, Code
10 Supplement 2003, is amended to read as follows:

11 a. ~~The applicable percent, as provided in subsection 2,~~
12 Two percent of the gross amount of premiums received during
13 the preceding calendar year by every life insurance company or
14 association, not including fraternal beneficiary associations,
15 or the gross payments or deposits collected from holders of
16 fraternal beneficiary association certificates, on contracts
17 of insurance covering risks resident in this state during the
18 preceding year, including contracts for group insurance and
19 annuities and without including or deducting any amounts
20 received or paid for reinsurance.

21 Sec. 22. Section 432.1, subsection 2, Code Supplement
22 2003, is amended by striking the subsection.

23 Sec. 23. Section 432.1, subsection 3, Code Supplement
24 2003, is amended to read as follows:

25 3. ~~The applicable percent, as provided in subsection 4,~~
26 Two percent of the gross amount of premiums, assessments, and
27 fees received during the preceding calendar year by every
28 company or association other than life on contracts of
29 insurance other than life for business done in this state,
30 including all insurance upon property situated in this state,
31 after deducting the amounts returned upon canceled policies,
32 certificates and rejected applications but not including the
33 gross premiums, assessments, and fees in connection with ocean
34 marine insurance authorized in section 515.48.

35 Sec. 24. Section 432.1, subsection 4, Code Supplement

1 2003, is amended by striking the subsection.

2 Sec. 25. Section 432.1, subsection 6, Code Supplement
3 2003, is amended by striking the subsection and inserting in
4 lieu thereof the following:

5 6. Each insurance company and association transacting
6 business in this state whose Iowa premium tax liability for
7 the preceding calendar year was one thousand dollars or more
8 shall remit on or before June 1, on a prepayment basis, an
9 amount equal to one-half of the premium tax liability for the
10 preceding calendar year.

11 Sec. 26. Section 432.2, Code Supplement 2003, is amended
12 to read as follows:

13 432.2 MUTUAL SERVICE CORPORATIONS.

14 Notwithstanding section 432.1, a hospital service
15 corporation, medical service corporation, pharmaceutical
16 service corporation, optometric service corporation, and any
17 other service corporation operating under chapter 514 shall
18 pay as taxes to the director of revenue an amount equal to the
19 ~~applicable percent, as provided in section 432.1, subsection~~
20 27 two percent of the gross amount of payments received during
21 the preceding calendar year for subscriber contracts covering
22 residents in this state after deducting the amounts returned
23 to subscribers upon canceled subscriber contracts and rejected
24 applications. Section 432.1, subsections 5 and 6, apply to
25 the tax imposed by this section.

26 Sec. 27. Section 518.18, subsection 1, Code Supplement
27 2003, is amended to read as follows:

28 ~~17--The-applicable~~ Two percent of the gross amount of
29 premiums received during the preceding calendar year, after
30 deducting the amount returned upon the canceled policies,
31 certificates, and rejected applications; and after deducting
32 premiums paid for windstorm or hail reinsurance on properties
33 specifically reinsured. However, the reinsurer of such
34 windstorm or hail risks shall pay ~~the-applicable~~ a two percent
35 of tax on the gross amount of reinsurance premiums received

1 upon such risks after deducting the amounts returned upon
2 canceled policies, certificates, and rejected applications.
3 ~~For purposes of this section, "applicable percent" means the~~
4 ~~same as specified in section 432.17, subsection 4.~~

5 Sec. 28. Section 518.18, subsections 2 and 3, Code
6 Supplement 2003, are amended by striking the subsections.

7 Sec. 29. Section 518A.35, subsection 1, Code Supplement
8 2003, is amended to read as follows:

9 ~~1.~~ A state mutual insurance association doing business
10 under this chapter shall on or before the first day of March,
11 each year, pay to the director of revenue, or a depository
12 designated by the director, a sum equivalent to ~~the applicable~~
13 two percent of the gross receipts from premiums and fees for
14 business done within the state, including all insurance upon
15 property situated in the state without including or deducting
16 any amounts received or paid for reinsurance. However, a
17 company reinsuring windstorm or hail risks written by county
18 mutual insurance associations is required to pay the
19 ~~applicable~~ a two percent tax on the gross amount of
20 reinsurance premiums received upon such risks, but after
21 deducting the amount returned upon canceled policies and
22 rejected applications covering property situated within the
23 state, and dividends returned to policyholders on property
24 situated within the state. ~~For purposes of this section,~~
25 ~~"applicable percent" means the same as specified in section~~
26 ~~432.17, subsection 4.~~

27 Sec. 30. Section 518A.35, subsections 2 and 3, Code
28 Supplement 2003, are amended by striking the subsections.

29 DIVISION IX

30 USE TAX REVENUE TRANSFER

31 Sec. 31. Notwithstanding the provisions of section 423.43,
32 as enacted by 2003 Iowa Acts, First Extraordinary Session,
33 chapter 2, section 136, from the use tax revenues to be
34 credited to the road use tax fund pursuant to section 423.43,
35 subsection 1, as enacted by 2003 Iowa Acts, First

1 Extraordinary Session, chapter 2, section 136, the first seven
2 million dollars collected during the fiscal year beginning
3 July 1, 2004, and ending June 30, 2005, shall be credited to
4 the general fund of the state.

5 DIVISION X

6 AREA EDUCATION AGENCY FUNDING RESTORATION

7 Sec. 32. Section 257.35, subsection 2, Code Supplement
8 2003, is amended by striking the subsection.

9 DIVISION XI

10 REPEAL OF NEW TAX INCENTIVE CREDIT AND REFUND

11 Sec. 33. 2004 Iowa Acts, Senate File 2290, is repealed.

12 Sec. 34. EFFECTIVE DATE. This division of this Act, being
13 deemed of immediate importance, takes effect upon enactment.

14 EXPLANATION

15 This bill provides for a number of changes relating to
16 education funding.

17 The bill establishes a state percent of growth of 6 percent
18 for purposes of the state school foundation program for the
19 school budget year beginning July 1, 2004, which would be an
20 increase of 4 percent from the 2 percent level presently
21 specified in Code section 257.8 for that budget year.

22 The bill appropriates moneys for fiscal year 2004-2005 from
23 the general fund of the state to the college student aid
24 commission, the department of education and the state board of
25 regents and its institutions, and amends statutory provisions
26 to increase state aid to the college student aid commission
27 for tuition grants.

28 The bill appropriates moneys to the department of education
29 for distribution to community colleges. The bill also amends
30 Code language to increase statutory appropriations for at-risk
31 children programs administered by the child development
32 coordinating council.

33 The bill appropriates moneys to the state board of regents
34 for the board office, tuition replacement, the southwest Iowa
35 graduate studies center, the tristate graduate center, the

1 quad-cities graduate studies center, the state university of
2 Iowa, Iowa state university of science and technology, the
3 university of northern Iowa, the Iowa school for the deaf, the
4 Iowa braille and sight saving school, and for tuition and
5 transportation costs for students residing in the Iowa braille
6 and sight saving school, and the Iowa school for the deaf.

7 The bill increases the individual income tax rates back to
8 what they were prior to the 10 percent reduction first
9 applicable to tax years beginning on or after January 1, 1998.
10 Thus, the rates are increased from the current range of 0.36
11 percent to 8.98 percent to a range of 0.40 percent to 9.98
12 percent. The bill eliminates the deduction for certain
13 capital gains and the limitation of the taxing of resident
14 shareholders' income from S corporations to that income
15 derived from sales in the state. The income tax rate increase
16 applies beginning with the 2005 tax year. The other
17 provisions apply retroactively beginning with the 2004 tax
18 year.

19 The bill requires that the net income of affiliated groups
20 of corporations engaged in a unitary business be computed on a
21 combined return basis for corporate tax purposes. The
22 affiliated group would include corporations with common
23 ownership whereby one or more corporations own 80 percent or
24 more of another corporation. The bill would require that one
25 Iowa corporate income tax return be filed that would include
26 all unitary members of an affiliated group. Any nonunitary
27 member that is subject to Iowa tax would file its own separate
28 corporate return. Only Iowa sales of those corporations doing
29 business in Iowa would be included in the numerator of the
30 Iowa sales ratio. The bill also provides that only those
31 corporations doing business in Iowa are jointly and severally
32 liable for the tax of the combined return. This provision
33 applies retroactively to January 1, 2004, for tax years
34 beginning on or after that date.

35 The bill limits the sales and use tax exemption for

1 nonprofit hospitals to those located in a county with a
2 population of not more than 50,000. In addition, the bill
3 strikes the sales and use tax exemptions for sales of argon
4 gas, of aircraft and aircraft parts, of automobiles purchased
5 for lease, of various items and materials used in printing,
6 and sales delivered electromagnetically, over cable, or by
7 fiber optics. In addition, the sales tax holiday provision,
8 during which sales tax is not imposed on certain items, is
9 stricken.

10 The bill increases the gross premiums tax on life and
11 property insurance companies, and state and county mutual
12 insurance associations to 2 percent. This was the rate prior
13 to the phased reduction in the rate from 2 percent to 1
14 percent enacted in 2002 and 2003. Also, the requirement of
15 additional prepayment of the premiums tax which was enacted
16 with the reduction in tax rates is stricken.

17 The bill transfers \$7 million to the general fund of the
18 state for FY 2004-2005 of use tax revenues collected which
19 were to be credited to the road use tax fund.

20 The bill provides for the deletion of a provision which
21 reduces funding for area education agencies for the fiscal
22 year beginning July 1, 2002, and each succeeding fiscal year,
23 by \$7.5 million. This would result in the elimination of
24 funding reductions for area education agencies for the fiscal
25 year beginning July 1, 2004, totaling \$17.5 million, when the
26 reduction in funding for the fiscal year beginning July 1,
27 2003, of \$10 million pursuant to Code section 257.35,
28 subsection 3, is taken into account.

29 The bill repeals S.F. 2290, which was passed during the
30 2004 session. Senate File 2290 provides an additional
31 incentive for corporations for new job creation under existing
32 programs. The incentives would apply to corporations,
33 creating the new jobs, that are leasing property constructed
34 by another. The incentive is a refund of the amount of sales
35 tax paid by the lessor on materials used in such construction

1 or corporate tax credit equal to such sales tax amount. This
2 repeal takes effect upon enactment.

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