

SENATE FILE 2295
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 3137)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes 30 Nays _____ Vote: Ayes _____ Nays _____
of 30 yeas. Approved _____

A BILL FOR

1 An Act allowing individual income tax credits for contributions
2 made to certain school tuition organizations and including an
3 applicability date provision.

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

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SF 2295
WAYS & MEANS

1 Section 1. NEW SECTION. 422.11J SCHOOL TUITION
2 ORGANIZATION TAX CREDIT.

3 1. The taxes imposed under this division less the credits
4 allowed under sections 422.12 and 422.12B shall be reduced by
5 a school tuition organization tax credit equal to the amount
6 of the voluntary cash contributions made by the taxpayer
7 during the tax year to a school tuition organization, not to
8 exceed either of the following:

9 a. Five hundred dollars for a single individual.

10 b. Six hundred twenty-five dollars for a married couple.

11 2. To be eligible for this credit, all of the following
12 shall apply:

13 a. A deduction pursuant to section 170 of the Internal
14 Revenue Code for any amount of the contribution is not taken
15 for state tax purposes.

16 b. The contribution does not designate that any part of
17 the contribution be used for the direct benefit of any
18 dependent of the taxpayer.

19 3. Any credit in excess of the tax liability is not
20 refundable but the excess for the tax year may be credited to
21 the tax liability for the following five tax years or until
22 depleted, whichever is the earlier.

23 4. Married taxpayers who file separate returns or file
24 separately on a combined return form must determine the tax
25 credit under subsection 1, paragraph "b", based upon their
26 combined net income and allocate the total credit amount to
27 each spouse in the proportion that each spouse's respective
28 net income bears to the total combined net income.

29 Nonresidents or part-year residents of Iowa must determine
30 their tax credit in the ratio of their Iowa source net income
31 to their all source net income. Nonresidents or part-year
32 residents who are married and elect to file separate returns
33 or to file separately on a combined return form must allocate
34 the tax credit between the spouses in the ratio of each
35 spouse's Iowa source net income to the combined Iowa source

1 net income of the taxpayers.

2 5. For purposes of this section:

3 a. "Disabled student" means a student who has any of the
4 following conditions:

- 5 (1) Hearing impairment.
- 6 (2) Visual impairment.
- 7 (3) Preschool moderate delay.
- 8 (4) Preschool severe delay.
- 9 (5) Preschool speech or language delay.

10 b. "New student" means a child who did not attend an
11 accredited nonpublic school in Iowa during the previous school
12 year.

13 c. "Qualified school" means a preschool for disabled
14 students in this state or a nonpublic elementary or secondary
15 school in this state which is accredited under section 256.11
16 and adheres to the provisions of the federal Civil Rights Act
17 of 1964 and chapter 216.

18 d. "School tuition organization" means a charitable
19 organization in this state that is exempt from federal
20 taxation under section 501(c)(3) of the Internal Revenue Code
21 and that allocates at least ninety percent of its annual
22 revenue for educational scholarships or tuition grants to
23 children to allow them to attend any qualified school of their
24 parents' choice of which one-third of the children who receive
25 scholarships or grants are new students. Once a child has
26 been deemed a new student that child shall continue to be
27 counted as a new student for each school year the child
28 receives a scholarship or grant from the organization to
29 attend a qualified school. In addition, to qualify as a
30 school tuition organization, the charitable organization shall
31 provide educational scholarships or tuition grants to students
32 without limiting availability to only students of one school.

33 6. A school tuition organization that receives a voluntary
34 cash contribution pursuant to this subsection shall report to
35 the department, in a form prescribed by the department, by

1 February 28 of each year all of the following information:

2 a. The name, address, and contact name of the school
3 tuition organization.

4 b. The total number of contributions received during the
5 previous calendar year.

6 c. The total dollar amount of contributions received
7 during the previous calendar year.

8 d. The total number of children awarded educational
9 scholarships or tuition grants during the previous calendar
10 year and the number of these children who are new students.

11 e. The total dollar amount of educational scholarships and
12 tuition grants awarded during the previous calendar year.

13 f. For each school to which educational scholarships or
14 tuition grants were awarded all of the following shall be
15 provided:

16 (1) The name and address of the school.

17 (2) The number of educational scholarships and tuition
18 grants awarded during the previous calendar year.

19 (3) The total dollar amount of educational scholarships
20 and tuition grants awarded during the previous calendar year.

21 Sec. 2. APPLICABILITY DATE. This Act applies to tax years
22 beginning on or after January 1, 2005.

23 EXPLANATION

24 This bill provides for an individual income tax credit
25 equal to the voluntary contributions made to a school tuition
26 organization that is exempt from federal income tax. The tax
27 credit is limited to \$500 for single individuals and \$625 for
28 married persons filing jointly. If married individuals file
29 separately, the \$625 is divided between them based upon each
30 individual's net income. At least 90 percent of total
31 contributions must be used by the school tuition organization
32 to provide educational scholarships or tuition grants to
33 children attending nonpublic schools or preschools for
34 disabled students that are accredited under state law and
35 adhere to the federal Civil Rights Act of 1964 and the state

1 civil rights law. In addition, one-third of the scholarships
2 or grants must be provided to students who attended a public
3 school in the previous year. The contribution may not be
4 deducted as a charitable deduction for state tax purposes or
5 be designated for the direct benefit of the taxpayer's
6 dependents.

7 The school tuition organization must report to the
8 department of revenue information related to the amount of
9 contributions made to the organization, and the number,
10 school, and amount of scholarships and grants awarded.

11 The bill applies to tax years beginning on or after January
12 1, 2005.

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SENATE FILE 2295**S-5245**

1 Amend Senate File 2295 as follows:

2 1. By striking everything after the enacting
3 clause and inserting the following:

4 "Section 1. NEW SECTION. 422.12F ADDITIONAL
5 TUITION TAX CREDIT.

6 1. The tax imposed under this division, less the
7 credits allowed under sections 422.12 and 422.12B,
8 shall be reduced by an additional tuition tax credit
9 equal to fifty percent of the first one thousand
10 dollars which the taxpayer has paid to others for each
11 dependent in grades kindergarten through twelve, for
12 tuition and textbooks of each dependent in attending
13 an elementary or secondary school situated in Iowa,
14 which school is accredited or approved under section
15 256.11, which is not operated for profit, and which
16 adheres to the provisions of the federal Civil Rights
17 Act of 1964 and chapter 216. As used in this
18 subsection, "textbooks" and "tuition" mean the same as
19 those terms are defined in section 422.12, subsection
20 2.

21 The additional tuition tax credit provided in this
22 section is only available to taxpayers with net
23 incomes of less than forty thousand dollars. The tax
24 credit is in addition to the tuition credit provided
25 in section 422.12, subsection 2, which credit shall be
26 deducted prior to the additional tuition tax credit
27 under this section.

28 2. Any credit in excess of the tax liability shall
29 be refunded. In lieu of claiming a refund, a taxpayer
30 may elect to have the overpayment shown on the
31 taxpayer's final, completed return credited to the tax
32 liability for the following taxable year.

33 3. Married taxpayers electing to file separate
34 returns or to file separately on a combined return
35 form must determine the additional tuition tax credit
36 under subsection 1 based upon their combined net
37 income and allocate the total credit amount to each
38 spouse in the proportion that each spouse's respective
39 net income bears to the total combined net income.

40 Sec. 2. APPLICABILITY DATE. This Act applies to
41 tax years beginning on or after January 1, 2005."

42 2. Title page, by striking lines 1 and 2 and
43 inserting the following: "An Act allowing an
44 additional tuition tax credit for amounts paid for
45 tuition and textbooks of dependents to attend
46 elementary and secondary schools in Iowa and including
47 an".

By MIKE CONNOLLY

SENATE FILE 2295

S-5229

1 Amend Senate File 2295 as follows:

- 2 1. Page 2, line 32, by inserting after the word
3 "school" the following: "and shall prioritize the
4 providing of such scholarships and grants to students
5 from families whose incomes are less than three
6 hundred percent of the federal poverty level, as
7 defined by the most recently revised income guidelines
8 published by the United States department of health
9 and human services".
- 10 2. Page 3, line 10, by inserting after the word
11 "students" the following: "and who are from families
12 with incomes of less than three hundred percent of the
13 federal poverty level".
- 14 3. Page 3, by inserting after line 20 the
15 following:
16 "7. The department shall annually file a report
17 with the chairpersons and ranking members of the
18 senate and house committees on ways and means
19 detailing a compilation of the information received
20 from the reports of all school tuition organizations
21 filed pursuant to the requirements of subsection 6."

By BRYAN J. SIEVERS

MATT McCOY

S-5229 FILED MARCH 31, 2004

**Fiscal Services Division
Legislative Services Agency
Fiscal Note**

SF 2295 - Tuition Tax Credit (LSB 6013 SV)

Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version - New

Description

Senate File 2295 creates a dollar-for-dollar tax credit of up to \$500 per single taxpayer and \$625 per married couple for donations to a School Tuition Organization. The School Tuition Organization is required to use the donations for student scholarships to attend a qualified nonpublic elementary or secondary school in Iowa. The Bill requires at least one-third of the contributed dollars to be used by the organizations for scholarships for persons who did not attend private school the prior year. The tax credit is not refundable, but unused portions may be carried forward to future tax years.

Background

Senate File 2295 is identical in all relevant aspects to a program established in Arizona beginning tax year 1998. One change from the Arizona law requires at least one-third of the money be utilized by students who did not attend private school the previous year. The Arizona law does not have a percentage requirement. An extensive study by the Goldwater Institute released in December 2003 reviewed the first five years of the Arizona experience and presented projections for the future. This Fiscal Note is based on the Arizona history and projections as presented by that Study.

Assumptions

1. Iowa's experience with the tax credit will be similar to that of Arizona, with adjustments for Assumptions 2 & 3.
2. Due to Iowa's smaller population base, Iowa contributions eligible for the tax credit will equal 80.0% of the Arizona level each year.
3. The Goldwater Study concluded 10.0% to 20.0% of Arizona scholarship recipients would have attended public school without the scholarship. The amendment requires that Iowa organizations average at least 33.0%.
4. The State School Aid savings due to a reduction in the number of public school students will equal 87.5% of the statewide average cost per student.
5. The School Aid portion of the average cost per public student in school year 2005/2006 (FY 2006) will be \$5,242.
6. The savings due to a student population reduction will occur one year after the student leaves the public school system.
7. The average cost per public school student and the average tuition scholarship will increase 2.5% per year.
8. The Bill will allow contributions to the Program as of the effective date. However, a tax credit would not be allowed until tax year 2006 and the tax credits claimed for previous contributions would still be limited to \$500/\$625 for that tax year.

Fiscal Impact

The School Tuition Organization tax credit created in SF 2295 will reduce General Fund revenues and reduce General Fund expenditures. The net impact on the General Fund will result in a reduction of \$1.5 million in FY 2006 and a reduction of \$10.5 million for FY 2007.

After FY 2008, the projected net General Fund impact is projected to be positive. The following table provides a nine-year projection of the proposed credit.

Private School Tuition Tax Credit

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Tax Credits Claimed (\$ in millions)	\$ 1.5	\$ 11.0	\$ 14.1	\$ 19.9	\$ 21.0	\$ 22.1	\$ 23.2	\$ 23.9	\$ 24.3
Scholarship Funds (\$ in millions)	\$ 0.1	\$ 1.9	\$ 10.9	\$ 12.9	\$ 16.0	\$ 19.8	\$ 22.0	\$ 23.9	\$ 24.9
Average Scholarship	\$ 514	\$ 638	\$ 885	\$ 893	\$ 1,031	\$ 1,140	\$ 1,186	\$ 1,216	\$ 1,246
Scholarships Funded	261	2,981	12,302	14,446	15,498	17,411	18,549	19,615	20,013
Public Student Transfers	86	984	4,060	4,767	5,114	5,746	6,121	6,473	6,604
State School Aid Savings (\$ in millions)	\$ 0.0	\$ 0.5	\$ 5.4	\$ 22.9	\$ 27.6	\$ 30.3	\$ 34.9	\$ 38.1	\$ 41.3
Net GF Impact	\$ - 1.5	\$ - 10.5	\$ - 8.7	\$ 3.0	\$ 6.6	\$ 8.2	\$ 11.7	\$ 14.2	\$ 17.0

Net General Fund (GF) impact equals the credits claimed in a year minus the school aid savings that year.

A tax credit that reduces the number of students in Iowa's public school system will also impact the local school finance system. How the changes impact the system will depend on the particular financial circumstances of the school districts losing students. Some of the financial considerations include:

1. A reduction in expenditures due to fewer students.
2. A reduction in local option income tax receipts due to reduced State income tax receipts. Use of the new tax credit by a taxpayer in a school district with a local option income tax will reduce the revenue raised by the local option tax.
3. A reduction in students in a particular district will cause a redistribution of local option sales tax revenues. Schools with reduced student populations will lose through the per-student tax distribution and those that do not lose students will gain.
4. A reduction in any federal funding distributed on a student population basis.
5. A reduction in State School Aid revenue to the public schools as provided above.

Sources

Goldwater Policy Report, December 11, 2003 (No. 186)
Iowa Department of Education student and financial information

Dennis C Prouty

March 31, 2004

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

SENATE FILE 2295
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 3137)

(AS AMENDED AND PASSED BY THE SENATE APRIL 1, 2004)

_____ - New Language by the Senate

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

A BILL FOR

1 An Act allowing individual income tax credits for contributions
2 made to certain school tuition organizations and including an
3 applicability date provision.

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

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SENATE FILE 2295

H-8444

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 2, line 29, by inserting after the word
4 "school." the following: "A school tuition
5 organization shall only award educational scholarships
6 and tuition grants to children who reside in Iowa."
7 2. Page 3, line 15, by inserting after the word
8 "students" the following: ", who reside in the
9 state,".

By COMMITTEE ON WAYS AND MEANS
VAN FOSSEN of Scott, Chairperson

H-8444 FILED APRIL 7, 2004

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S.F. 2295

1 Section 1. NEW SECTION. 422.11J SCHOOL TUITION
2 ORGANIZATION TAX CREDIT.

3 1. The taxes imposed under this division less the credits
4 allowed under sections 422.12 and 422.12B shall be reduced by
5 a school tuition organization tax credit equal to the amount
6 of the voluntary cash contributions made by the taxpayer
7 during the tax year to a school tuition organization, not to
8 exceed either of the following:

9 a. Five hundred dollars for a single individual.

10 b. Six hundred twenty-five dollars for a married couple.

11 2. To be eligible for this credit, all of the following
12 shall apply:

13 a. A deduction pursuant to section 170 of the Internal
14 Revenue Code for any amount of the contribution is not taken
15 for state tax purposes.

16 b. The contribution does not designate that any part of
17 the contribution be used for the direct benefit of any
18 dependent of the taxpayer.

19 3. Any credit in excess of the tax liability is not
20 refundable but the excess for the tax year may be credited to
21 the tax liability for the following five tax years or until
22 depleted, whichever is the earlier.

23 4. Married taxpayers who file separate returns or file
24 separately on a combined return form must determine the tax
25 credit under subsection 1, paragraph "b", based upon their
26 combined net income and allocate the total credit amount to
27 each spouse in the proportion that each spouse's respective
28 net income bears to the total combined net income.

29 Nonresidents or part-year residents of Iowa must determine
30 their tax credit in the ratio of their Iowa source net income
31 to their all source net income. Nonresidents or part-year
32 residents who are married and elect to file separate returns
33 or to file separately on a combined return form must allocate
34 the tax credit between the spouses in the ratio of each
35 spouse's Iowa source net income to the combined Iowa source

1 net income of the taxpayers.

2 5. For purposes of this section:

3 a. "Disabled student" means a student who has any of the
4 following conditions:

5 (1) Hearing impairment.

6 (2) Visual impairment.

7 (3) Preschool moderate delay.

8 (4) Preschool severe delay.

9 (5) Preschool speech or language delay.

10 b. "New student" means a child who did not attend an
11 accredited nonpublic school in Iowa during the previous school
12 year.

13 c. "Qualified school" means a preschool for disabled
14 students in this state or a nonpublic elementary or secondary
15 school in this state which is accredited under section 256.11
16 and adheres to the provisions of the federal Civil Rights Act
17 of 1964 and chapter 216.

18 d. "School tuition organization" means a charitable
19 organization in this state that is exempt from federal
20 taxation under section 501(c)(3) of the Internal Revenue Code
21 and that allocates at least ninety percent of its annual
22 revenue for educational scholarships or tuition grants to
23 children to allow them to attend any qualified school of their
24 parents' choice of which one-third of the children who receive
25 scholarships or grants are new students. Once a child has
26 been deemed a new student that child shall continue to be
27 counted as a new student for each school year the child
28 receives a scholarship or grant from the organization to
29 attend a qualified school. In addition, to qualify as a
30 school tuition organization, the charitable organization shall
31 provide educational scholarships or tuition grants to students
32 without limiting availability to only students of one school
33 and shall prioritize the providing of such scholarships and
34 grants to students from families whose incomes are less than
35 three hundred percent of the federal poverty level, as defined

1 by the most recently revised income guidelines published by
2 the United States department of health and human services.

3 6. A school tuition organization that receives a voluntary
4 cash contribution pursuant to this subsection shall report to
5 the department, in a form prescribed by the department, by
6 February 28 of each year all of the following information:

7 a. The name, address, and contact name of the school
8 tuition organization.

9 b. The total number of contributions received during the
10 previous calendar year.

11 c. The total dollar amount of contributions received
12 during the previous calendar year.

13 d. The total number of children awarded educational
14 scholarships or tuition grants during the previous calendar
15 year and the number of these children who are new students and
16 who are from families with incomes of less than three hundred
17 percent of the federal poverty level.

18 e. The total dollar amount of educational scholarships and
19 tuition grants awarded during the previous calendar year.

20 f. For each school to which educational scholarships or
21 tuition grants were awarded all of the following shall be
22 provided:

23 (1) The name and address of the school.

24 (2) The number of educational scholarships and tuition
25 grants awarded during the previous calendar year.

26 (3) The total dollar amount of educational scholarships
27 and tuition grants awarded during the previous calendar year.

28 7. The department shall annually file a report with the
29 chairpersons and ranking members of the senate and house
30 committees on ways and means detailing a compilation of the
31 information received from the reports of all school tuition
32 organizations filed pursuant to the requirements of subsection
33 6.

34 Sec. 2. APPLICABILITY DATE. This Act applies to tax years
35 beginning on or after January 1, 2005.

SENATE FILE 2295**H-8519**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 1, line 5, by striking the words "the
4 amount" and inserting the following: "fifty percent".
5 2. Page 2, line 14, by inserting before the word
6 "nonpublic" the following: "public or".
7 3. Page 2, line 35, by striking the word "three"
8 and inserting the following: "two".
9 4. Page 3, by inserting after line 2 the
10 following:
11 "e. "Tuition" means any charges or fees for the
12 expenses of personnel, buildings, equipment and
13 materials, and other expenses of elementary or
14 secondary schools which relate to the teaching of
15 those subjects legally and commonly taught in public
16 or nonpublic elementary and secondary schools in this
17 state."
18 5. Page 3, line 16, by striking the word "three"
19 and inserting the following: "two".
20 6. Page 3, line 35, by inserting after the figure
21 "2005" the following: ", but before January 1, 2010".

By JOCHUM of Dubuque
OSTERHAUS of Jackson
FREVERT of Palo Alto

H-8519 FILED APRIL 14, 2004

B-LOST

SENATE FILE 2295**H-8522**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 2, line 17, by inserting after the figure
4 "216." the following: "A qualified school shall not
5 discriminate on the basis of race, creed, color,
6 national origin, sex, age, or disability."

By SMITH of Marshall

H-8522 FILED APRIL 13, 2004

LOST

SENATE FILE 2295**H-8523**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 2, line 33, by striking the words
4 "prioritize the providing of" and inserting the
5 following: "provide".
6 2. Page 2, line 35, by striking the words "three
7 hundred" and inserting the following: "one hundred
8 eighty-five".
9 3. Page 3, line 16, by striking the words "three
10 hundred" and inserting the following: "one hundred
11 eighty-five".

By MASCHER of Johnson

H-8523 FILED APRIL 13, 2004
WITHDRAWN

SENATE FILE 2295**H-8524**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 1, line 5, by striking the words "the
4 amount" and inserting the following: "twenty-five
5 percent".

By MASCHER of Johnson

H-8524 FILED APRIL 13, 2004
LOST

SENATE FILE 2295**H-8526**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 2, line 17, by inserting after the figure
4 "216." the following: "'Qualified school" does not
5 include kindergarten."

By MASCHER of Johnson

H-8526 FILED APRIL 13, 2004
WITHDRAWN

SENATE FILE 2295**H-8527**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 3, by inserting after line 27 the
4 following:
5 "____. The director may impose a civil penalty
6 against any organization that fails to file the report
7 or fails to timely file the report or where the report
8 is not properly completed as required by subsection 6.
9 The penalty shall be five hundred dollars."
10 2. Title page, line 2, by inserting after the
11 word "organizations" the following: ", providing a
12 penalty,".

By WENDT of Woodbury

H-8527 FILED APRIL 13, 2004

LOST

SENATE FILE 2295**H-8529**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 2, by striking lines 3 through 9.
4 2. Page 2, lines 13 and 14, by striking the words
5 "for disabled students" and inserting the following:
6 ", as defined in section 237A.1, located".

By HOGG of Linn
PETERSEN of Polk

H-8529 FILED APRIL 13, 2004

LOST

SENATE FILE 2295**H-8530**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 2, line 17, by inserting after the figure
4 "216." the following: "In addition, a qualified
5 school must be under the same guidelines, standards,
6 restrictions, and requirements as public elementary
7 and secondary schools regarding the academic
8 achievement of its students."

By MASCHER of Johnson

H-8530 FILED APRIL 13, 2004

LOST

SENATE FILE 2295**H-8531**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 3, by striking lines 34 and 35 and
4 inserting the following:
5 "8. The tax credit in this section is only
6 available if the tax year begins in a calendar year
7 which follows a legislative session during which the
8 state percent of growth pursuant to section 257.8 was
9 set at four percent or more."

By MASCHER of Johnson

H-8531 FILED APRIL 13, 2004
WITHDRAWN

SENATE FILE 2295**H-8532**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 1, line 18, by inserting after the word
4 "taxpayer" the following: "or any other student
5 designated by the taxpayer".

By JOCHUM of Dubuque

H-8532 FILED APRIL 13, 2004
ADOPTED

SENATE FILE 2295**H-8533**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 2, line 24, by striking the word "one-
4 third" and inserting the following: "all".
5 2. Page 2, line 33, by striking the words
6 "prioritize the providing of" and inserting the
7 following: "provide all".
8 3. Page 2, line 35, by striking the word "three"
9 and inserting the following: "two".
10 4. Page 3, line 2, by inserting after the word
11 "services." the following: "Scholarships and grants
12 shall be awarded to applicants on a random basis."
13 5. Page 3, line 16, by striking the word "three"
14 and inserting the following: "two".

By SHOULTZ of Black Hawk

H-8533 FILED APRIL 13, 2004
A-LOST B-OUT OF ORDER

SENATE FILE 2295**H-8534**

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, line 5, by inserting after the words
4 "equal to" the following: "seventy-five percent of".

5 2. Page 1, line 9, by striking the word "Five"
6 and inserting the following: "Seven".

7 3. Page 1, line 10, by striking the words "Six
8 hundred twenty-five" and inserting the following:
9 "Eight hundred".

10 4. Page 1, by inserting after line 10 the
11 following:

12 "____. The taxpayer shall not be entitled to the
13 credit for tax years beginning in the 2005 and 2006
14 calendar years unless the credit is preapproved by the
15 department as provided in subsection 2A."

16 5. Page 1, by inserting after line 18 the
17 following:

18 "2A. To receive the tax credit for tax years
19 beginning in the 2005 and 2006 calendar years, the
20 taxpayer shall apply for the credit to the department
21 by January 31 following the end of the calendar year
22 in which the contribution was made. If the taxpayer
23 and school tuition organization qualify, the
24 department shall approve the application for credit
25 and so notify the taxpayer by April 1 following
26 receipt of the application. However, the department
27 of revenue shall only grant approval under this
28 section for a total of five million dollars in credits
29 in the fiscal year beginning July 1, 2005, and for a
30 total of ten million dollars in credits in the fiscal
31 year beginning July 1, 2006. If the qualified
32 applications total more than five million dollars or
33 ten million dollars, as applicable, in credits, the
34 department shall reduce the amount of credit approved
35 for each taxpayer on a pro rata basis and shall so
36 notify the taxpayer of the percentage of the credit
37 approved. The department shall prepare application
38 forms which may be made available to charitable
39 organizations that may qualify as school tuition
40 organizations."

41 6. Page 2, line 35, by striking the word "three"
42 and inserting the following: "two".

43 7. Page 3, line 16, by striking the word "three"
44 and inserting the following: "two".

45 8. Page 3, line 35, by inserting after the figure
46 "2005" the following: ", but before January 1, 2013".

By LUKAN of Dubuque

QUIRK of Chickasaw

WISE of Lee

REASONER of Union

McCARTHY of Polk

H-8534 FILED APRIL 13, 2004

ADOPTED

SENATE FILE 2295**H-8535**

1 Amend the amendment, H-8522, to Senate File 2295,
2 as amended, passed, and reprinted by the Senate, as
3 follows:

4 1. Page 1, by striking lines 3 through 6 and
5 inserting the following:

6 "____. Page 2, line 29, by inserting after the
7 word "school." the following: "A school tuition
8 organization shall not discriminate on the basis of
9 race, creed, color, national origin, sex, age, or
10 disability.""

By SMITH of Marshall

H-8535 FILED APRIL 13, 2004

ADOPTED

Fiscal Services Division Legislative Services Agency Fiscal Note

SF 2295 - Tuition Tax Credit (LSB 6013 SV.1)

Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version – As amended by S-5366 and H-8553

Description

The House amendment to SF 2295 (S-5366) as amended by the Senate amendment (H-8553) makes several changes impacting the revenue reductions and cost savings associated with the Bill as originally passed by the Senate. The amendments:

1. Decrease the percentage of a donation that can be claimed as a credit from 100.0% to 75.0%. This action will decrease donations and scholarship awards.
2. Increase the maximum donation from \$500/\$625 to \$700/\$825. This action will increase the amount of donations and scholarship awards.
3. Restrict scholarship awards to residents of Iowa. This could potentially increase the General Fund savings due to reduced public school enrollment.
4. Decrease the federal poverty level requirement from a factor of three to a factor of two as a preference item for scholarship awards. This action could potentially increase the General Fund savings due to reduced public school enrollment.

Assumptions

1. Items one and two above together should generate a net decrease in program utilization compared to the original fiscal note assumptions. To account for this change the original fiscal note assumption of 80.0% of the Arizona plan size is reduced to 64%.
2. For the first fiscal year (FY 2006), Iowa participation is assumed to be 200% of the Arizona level, to account for the additional year of implementation time in the Iowa proposal. This is an adjustment to the original fiscal note.
3. The FY 2004 cost per pupil is reduced to correct an error in the original fiscal note. This error inflated the General Fund savings associated with reduced public school enrollment by approximately 23.0%. The error was caused by the inclusion of special education weighting in the original fiscal note cost.

Fiscal Impact

The following table presents the State General Fund fiscal impact of Senate File 2295 as amended by the Senate and House.

Private School Tuition Tax Credit

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Tax Credits Claimed (\$ mill)	\$3.6	\$8.8	\$11.3	\$15.9	\$16.8	\$17.6	\$18.5	\$19.1
Scholarship Funds (\$ mill)	\$0.3	\$1.5	\$8.7	\$10.3	\$12.8	\$15.9	\$17.6	\$19.1
Average Scholarship (\$)	\$514	\$638	\$885	\$893	\$1,031	\$1,140	\$1,186	\$1,216
Scholarships Funded	652	2,385	9,841	11,557	12,399	13,929	14,839	15,692
Public Student Transfers	215	787	3,248	3,814	4,092	4,597	4,897	5,178
State School Aid Savings (\$ mill)	\$0.0	\$0.9	\$3.6	\$15.1	\$18.1	\$19.9	\$23.0	\$25.1
Net GF Impact	<u>-\$3.6</u>	<u>-\$7.9</u>	<u>-\$7.7</u>	<u>-\$0.8</u>	<u>\$1.3</u>	<u>\$2.3</u>	<u>\$4.5</u>	<u>\$6.0</u>

Net General Fund (GF) impact equals the credits claimed in a year minus the school aid savings that year.

A tax credit that reduces the number of students in Iowa's public school system will also impact the local school finance system. How the changes impact the system will depend on the particular financial circumstances of the school districts losing students. Some of the financial considerations include:

1. A reduction in expenditures due to fewer students.
2. A reduction in local option income tax receipts due to reduced State income tax receipts. Use of the new tax credit by a taxpayer in a school district with a local option income tax will reduce the revenue raised by the local option tax.
3. A reduction in students in a particular district will cause a redistribution of local option sales tax revenues. Schools with reduced student populations will lose through the per-student tax distribution and those that do not lose students will gain.
4. A reduction in any federal funding distributed on a student population basis.
5. A reduction in State School Aid revenue to the public schools as provided above.
6. An increase in property taxes due to the action of the 101% budget guarantee component of the State School Aid Formula.

Sources

Goldwater Policy Report, December 11, 2003 (No. 186)
Iowa Department of Education student and financial information

Dennis C Prouty

April 14, 2004

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

**HOUSE AMENDMENT TO
SENATE FILE 2295**

S-5366

1 Amend Senate File 2295, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, line 5, by inserting after the words
4 "equal to" the following: "seventy-five percent of".

5 2. Page 1, line 9, by striking the word "Five"
6 and inserting the following: "Seven".

7 3. Page 1, line 10, by striking the words "Six
8 hundred twenty-five" and inserting the following:
9 "Eight hundred".

10 4. Page 1, by inserting after line 10 the
11 following:

12 "____. The taxpayer shall not be entitled to the
13 credit for tax years beginning in the 2005 and 2006
14 calendar years unless the credit is preapproved by the
15 department as provided in subsection 2A."

16 5. Page 1, line 18, by inserting after the word
17 "taxpayer" the following: "or any other student
18 designated by the taxpayer".

19 6. Page 1, by inserting after line 18 the
20 following:

21 "2A. To receive the tax credit for tax years
22 beginning in the 2005 and 2006 calendar years, the
23 taxpayer shall apply for the credit to the department
24 by January 31 following the end of the calendar year
25 in which the contribution was made. If the taxpayer
26 and school tuition organization qualify, the
27 department shall approve the application for credit
28 and so notify the taxpayer by April 1 following
29 receipt of the application. However, the department
30 of revenue shall only grant approval under this
31 section for a total of five million dollars in credits
32 in the fiscal year beginning July 1, 2005, and for a
33 total of ten million dollars in credits in the fiscal
34 year beginning July 1, 2006. If the qualified
35 applications total more than five million dollars or
36 ten million dollars, as applicable, in credits, the
37 department shall reduce the amount of credit approved
38 for each taxpayer on a pro rata basis and shall so
39 notify the taxpayer of the percentage of the credit
40 approved. The department shall prepare application
41 forms which may be made available to charitable
42 organizations that may qualify as school tuition
43 organizations."

44 7. Page 2, line 29, by inserting after the word
45 "school." the following: "A school tuition
46 organization shall only award educational scholarships
47 and tuition grants to children who reside in Iowa."

48 8. Page 2, line 35, by striking the word "three"
49 and inserting the following: "two".

50 9. Page 3, line 15, by inserting after the word

S-5366

S-5366

Page 2

- 1 "students" the following: ", who reside in the
- 2 state,".
- 3 10. Page 3, line 16, by striking the word
- 4 "three" and inserting the following: "two".
- 5 11. Page 3, line 35, by inserting after the
- 6 figure "2005" the following: ", but before January 1,
- 7 2013".
- 8 12. By renumbering, relettering, or redesignating
- 9 and correcting internal references as necessary.

RECEIVED FROM THE HOUSE

S-5366 FILED APRIL 14, 2004

SENATE FILE 2295

S-5368

- 1 Amend the House amendment, S-5366, to Senate File
- 2 2295, as amended, passed, and reprinted by the Senate,
- 3 as follows:
- 4 1. Page 1, by striking lines 10 through 15.
- 5 2. Page 1, by striking lines 19 through 43.
- 6 3. Page 1, by inserting before line 44 the
- 7 following:
- 8 "____. Page 2, by striking lines 3 through 9 and
- 9 inserting the following:
- 10 "a. "Disabled student" means a child requiring
- 11 special education, as defined in section 256B.2,
- 12 subsection 1."

By BRYAN J. SIEVERS

S-5368 FILED APRIL 14, 2004
ADOPTED

**SENATE AMENDMENT TO HOUSE AMENDMENT TO
SENATE FILE 2295**

H-8553

- 1 Amend the House amendment, S-5366, to Senate File
- 2 2295, as amended, passed, and reprinted by the Senate,
- 3 as follows:
- 4 1. Page 1, by striking lines 10 through 15.
- 5 2. Page 1, by striking lines 19 through 43.
- 6 3. Page 1, by inserting before line 44 the
- 7 following:
- 8 "____. Page 2, by striking lines 3 through 9 and
- 9 inserting the following:
- 10 "a. "Disabled student" means a child requiring
- 11 special education, as defined in section 256B.2,
- 12 subsection 1."

RECEIVED FROM THE SENATE

H-8553 FILED APRIL 14, 2004
CONCURRED

Siewers
McKibben
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Succeeded By
①/HF 2295 SSB# 3137
Ways & Means

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON MCKIBBEN)

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

A BILL FOR

1 An Act allowing individual income tax credits for contributions
2 made to certain school tuition organizations and including an
3 applicability date provision.

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

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1 Section 1. NEW SECTION. 422.11J SCHOOL TUITION
2 ORGANIZATION TAX CREDIT.

3 1. The taxes imposed under this division less the credits
4 allowed under sections 422.12 and 422.12B shall be reduced by
5 a school tuition organization tax credit equal to the amount
6 of the voluntary cash contributions made by the taxpayer
7 during the tax year to a school tuition organization, not to
8 exceed either of the following:

9 a. Five hundred dollars for a single individual.

10 b. Six hundred twenty-five dollars for a married couple.

11 2. To be eligible for this credit, all of the following
12 shall apply:

13 a. A deduction pursuant to section 170 of the Internal
14 Revenue Code for any amount of the contribution is not taken
15 for state tax purposes.

16 b. The contribution does not designate that any part of
17 the contribution be used for the direct benefit of any
18 dependent of the taxpayer.

19 3. Any credit in excess of the tax liability is not
20 refundable but the excess for the tax year may be credited to
21 the tax liability for the following five tax years or until
22 depleted, whichever is the earlier.

23 4. Married taxpayers who file separate returns or file
24 separately on a combined return form must determine the tax
25 credit under subsection 1, paragraph "b", based upon their
26 combined net income and allocate the total credit amount to
27 each spouse in the proportion that each spouse's respective
28 net income bears to the total combined net income.

29 Nonresidents or part-year residents of Iowa must determine
30 their tax credit in the ratio of their Iowa source net income
31 to their all source net income. Nonresidents or part-year
32 residents who are married and elect to file separate returns
33 or to file separately on a combined return form must allocate
34 the tax credit between the spouses in the ratio of each
35 spouse's Iowa source net income to the combined Iowa source

1 net income of the taxpayers.

2 5. For purposes of this section:

3 a. "Disabled student" means a student who has any of the
4 following conditions:

5 (1) Hearing impairment.

6 (2) Visual impairment.

7 (3) Preschool moderate delay.

8 (4) Preschool severe delay.

9 (5) Preschool speech or language delay.

10 b. "Qualified school" means a preschool for disabled
11 students in this state or a nonpublic elementary or secondary
12 school in this state which is accredited under section 256.11
13 and adheres to the provisions of the federal Civil Rights Act
14 of 1964 and chapter 216.

15 c. "School tuition organization" means a charitable
16 organization in this state that is exempt from federal
17 taxation under section 501(c)(3) of the Internal Revenue Code
18 and that allocates at least ninety percent of its annual
19 revenue for educational scholarships or tuition grants to
20 children to allow them to attend any qualified school of their
21 parents' choice. In addition, to qualify as a school tuition
22 organization, the charitable organization shall provide
23 educational scholarships or tuition grants to students without
24 limiting availability to only students of one school.

25 6. A school tuition organization that receives a voluntary
26 cash contribution pursuant to this subsection shall report to
27 the department, in a form prescribed by the department, by
28 February 28 of each year all of the following information:

29 a. The name, address, and contact name of the school
30 tuition organization.

31 b. The total number of contributions received during the
32 previous calendar year.

33 c. The total dollar amount of contributions received
34 during the previous calendar year.

35 d. The total number of children awarded educational

1 scholarships or tuition grants during the previous calendar
2 year.

3 e. The total dollar amount of educational scholarships and
4 tuition grants awarded during the previous calendar year.

5 f. For each school to which educational scholarships or
6 tuition grants were awarded all of the following shall be
7 provided:

8 (1) The name and address of the school.

9 (2) The number of educational scholarships and tuition
10 grants awarded during the previous calendar year.

11 (3) The total dollar amount of educational scholarships
12 and tuition grants awarded during the previous calendar year.

13 Sec. 2. APPLICABILITY DATE. This Act applies to tax years
14 beginning on or after January 1, 2005.

15 EXPLANATION

16 This bill provides for an individual income tax credit
17 equal to the voluntary contributions made to a school tuition
18 organization that is exempt from federal income tax. The tax
19 credit is limited to \$500 for single individuals and \$625 for
20 married persons filing jointly. If married individuals file
21 separately, the \$625 is divided between them based upon each
22 individual's net income. At least 90 percent of total
23 contributions must be used by the school tuition organization
24 to provide educational scholarships or tuition grants to
25 children attending nonpublic schools or preschools for
26 disabled students that are accredited under state law and
27 adhere to the federal Civil Rights Act of 1964 and the state
28 civil rights law. The contribution may not be deducted as a
29 charitable deduction for state tax purposes or be designated
30 for the direct benefit of the taxpayer's dependents.

31 The school tuition organization must report to the
32 department of revenue information related to the amount of
33 contributions made to the organization, and the number,
34 school, and amount of scholarships and grants awarded.

35 The bill applies to tax years beginning on or after January

S.F. _____ H.F. _____

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May 14, 2004

VETO

The Honorable Chester Culver
Secretary of State
State Capitol Building
LOCAL

Dear Mr. Secretary:

I hereby transmit **Senate File 2295**, an Act allowing individual income tax credits for contributions made to certain school tuition organizations and including an applicability date provision.

I am unable to approve **Senate File 2295**. This bill allows a tax credit for contributions to school tuition organizations for educational scholarships or tuition grants to children in nonpublic accredited schools. The bill provides an income tax credit of 75% of voluntary cash contributions, up to \$700 per single individual or \$800 for a married couple. No cap on the annual total was implemented and the contributions could be substantial. This bill does not allow an equal tax credit for contributions to public schools.

I understand the rationale behind **Senate File 2295**. Proponents urge approval predicated on the alternative they believe private schools provide to public education. Proponents also urge that the proposal, while costing the general fund initially, will save the state resources in the long term as fewer children will attend public schools thereby relieving state aid.

Despite the best intentions behind **Senate file 2295**, I cannot and will not approve it at this time. If anything is certain this year in Iowa, it is that resources available to support public education were inadequate. The legislature neither provided full funding for allowable growth nor did the legislature provide resources to move beyond the status quo of our groundbreaking teacher compensation and student achievement effort. As long as our public school system needs resources, priorities dictate that incentives to encourage support for private schools should not be encouraged – particularly when they reduce future available resources.

In the next two years, more than \$65 million of tax cuts authorized but not yet implemented must be covered by revenue growth or cuts in education, health care and public safety. **Senate File 2295** conservatively would add another \$3.6 million to that

total and might be substantially more if other states' experiences with this mechanism to support private schools is replicated in Iowa. We should not add to that total until revenues stabilize and priorities are adequately funded.

For the above reasons, I hereby respectfully disapprove **Senate File 2295**.

Sincerely,

Thomas J. Vilsack
Governor

cc: Secretary of the Senate
Chief Clerk of the House

VETO

SENATE FILE 2295

AN ACT

ALLOWING INDIVIDUAL INCOME TAX CREDITS FOR CONTRIBUTIONS MADE TO CERTAIN SCHOOL TUITION ORGANIZATIONS AND INCLUDING AN APPLICABILITY DATE PROVISION.

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

Section 1. NEW SECTION. 422.11J SCHOOL TUITION ORGANIZATION TAX CREDIT.

1. The taxes imposed under this division less the credits allowed under sections 422.12 and 422.12B shall be reduced by a school tuition organization tax credit equal to seventy-five percent of the amount of the voluntary cash contributions made by the taxpayer during the tax year to a school tuition organization, not to exceed either of the following:

- a. Seven hundred dollars for a single individual.
- b. Eight hundred dollars for a married couple.

2. To be eligible for this credit, all of the following shall apply:

a. A deduction pursuant to section 170 of the Internal Revenue Code for any amount of the contribution is not taken for state tax purposes.

b. The contribution does not designate that any part of the contribution be used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer.

3. Any credit in excess of the tax liability is not refundable but the excess for the tax year may be credited to the tax liability for the following five tax years or until depleted, whichever is the earlier.

4. Married taxpayers who file separate returns or file separately on a combined return form must determine the tax credit under subsection 1, paragraph "b", based upon their combined net income and allocate the total credit amount to each spouse in the proportion that each spouse's respective net income bears to the total combined net income. Nonresidents or part-year residents of Iowa must determine their tax credit in the ratio of their Iowa source net income to their all source net income. Nonresidents or part-year residents who are married and elect to file separate returns or to file separately on a combined return form must allocate the tax credit between the spouses in the ratio of each spouse's Iowa source net income to the combined Iowa source net income of the taxpayers.

5. For purposes of this section:

a. "Disabled student" means a child requiring special education, as defined in section 256B.2, subsection 1.

b. "New student" means a child who did not attend an accredited nonpublic school in Iowa during the previous school year.

c. "Qualified school" means a preschool for disabled students in this state or a nonpublic elementary or secondary school in this state which is accredited under section 256.11 and adheres to the provisions of the federal Civil Rights Act of 1964 and chapter 216.

d. "School tuition organization" means a charitable organization in this state that is exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code and that allocates at least ninety percent of its annual revenue for educational scholarships or tuition grants to children to allow them to attend any qualified school of their parents' choice of which one-third of the children who receive scholarships or grants are new students. Once a child has been deemed a new student that child shall continue to be counted as a new student for each school year the child receives a scholarship or grant from the organization to

attend a qualified school. A school tuition organization shall only award educational scholarships and tuition grants to children who reside in Iowa. In addition, to qualify as a school tuition organization, the charitable organization shall provide educational scholarships or tuition grants to students without limiting availability to only students of one school and shall prioritize the providing of such scholarships and grants to students from families whose incomes are less than two hundred percent of the federal poverty level, as defined by the most recently revised income guidelines published by the United States department of health and human services.

6. A school tuition organization that receives a voluntary cash contribution pursuant to this subsection shall report to the department, in a form prescribed by the department, by February 28 of each year all of the following information:

- a. The name, address, and contact name of the school tuition organization.
- b. The total number of contributions received during the previous calendar year.
- c. The total dollar amount of contributions received during the previous calendar year.
- d. The total number of children awarded educational scholarships or tuition grants during the previous calendar year and the number of these children who are new students, who reside in the state, and who are from families with incomes of less than two hundred percent of the federal poverty level.

e. The total dollar amount of educational scholarships and tuition grants awarded during the previous calendar year.

f. For each school to which educational scholarships or tuition grants were awarded all of the following shall be provided:

- (1) The name and address of the school.
- (2) The number of educational scholarships and tuition grants awarded during the previous calendar year.

(3) The total dollar amount of educational scholarships and tuition grants awarded during the previous calendar year.

7. The department shall annually file a report with the chairpersons and ranking members of the senate and house committees on ways and means detailing a compilation of the information received from the reports of all school tuition organizations filed pursuant to the requirements of subsection 6.

Sec. 2. APPLICABILITY DATE. This Act applies to tax years beginning on or after January 1, 2005, but before January 1, 2013.

JEFFREY M. LAMBERTI
President of the Senate

CHRISTOPHER C. RANTS
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2295, Eightieth General Assembly.

MICHAEL E. MARSHALL
Secretary of the Senate

Approved _____, 2004

THOMAS J. VILSACK
Governor