

MAY 1 2006
WAYS & MEANS CALENDAR

HOUSE FILE 2796
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 781)

Passed House, Date _____ Passed Senate, 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
3 effective and retroactive applicability date provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

HF 2796

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1 Section 1. NEW SECTION. 422.11M 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 sixty-five
6 percent of the amount of the voluntary cash contributions made
7 by the taxpayer during the tax year to a school tuition
8 organization, subject to the total dollar value of the
9 organization's tax credit certificates as computed in
10 subsection 7. The tax credit shall be claimed by use of a tax
11 credit certificate as provided in subsection 6.

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

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

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

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

25 4. Married taxpayers who file separate returns or file
26 separately on a combined return form must determine the tax
27 credit under subsection 1, based upon their combined net
28 income and allocate the total credit amount to each spouse in
29 the proportion that each spouse's respective net income bears
30 to the total combined net income. Nonresidents or part-year
31 residents of Iowa must determine their tax credit in the ratio
32 of their Iowa source net income to their all source net
33 income. Nonresidents or part-year residents who are married
34 and elect to file separate returns or to file separately on a
35 combined return form must allocate the tax credit between the

1 spouses in the ratio of each spouse's Iowa source net income
2 to the combined Iowa source net income of the taxpayers.

3 5. For purposes of this section:

4 a. "Eligible student" means a student who is a member of a
5 household whose total annual income during the calendar year
6 before the student receives a tuition grant for purposes of
7 this section does not exceed an amount equal to two and
8 one-half times the income standard used to qualify for free or
9 reduced price meals under the federal National School Lunch
10 Act and the federal Child Nutrition Act of 1966, 42 U.S.C. §
11 1751-1785.

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

16 c. "School tuition organization" means a charitable
17 organization in this state that is exempt from federal
18 taxation under section 501(c)(3) of the Internal Revenue Code
19 and that does all of the following:

20 (1) Allocates at least ninety percent of its annual
21 revenue in tuition grants for children to allow them to attend
22 a qualified school of their parents' choice.

23 (2) Only awards tuition grants to children who reside in
24 Iowa.

25 (3) Provides tuition grants to students without limiting
26 availability to only students of one school.

27 (4) Only provides tuition grants to eligible students.

28 (5) Prepares an annual reviewed financial statement
29 certified by a public accounting firm.

30 6. a. In order for the taxpayer to claim the school
31 tuition organization tax credit under subsection 1, a tax
32 credit certificate issued by the school tuition organization
33 to which the contribution was made shall be attached to the
34 person's tax return. The tax credit certificate shall contain
35 the taxpayer's name, address, tax identification number, the

1 amount of the contribution, the amount of the credit, and
2 other information required by the department.

3 b. The department shall authorize a school tuition
4 organization to issue tax credit certificates for
5 contributions made to the school tuition organization. The
6 aggregate amount of tax credit certificates that the
7 department shall authorize for a school tuition organization
8 for a tax year shall be determined for that organization
9 pursuant to subsection 7.

10 c. Pursuant to rules of the department, a school tuition
11 organization shall initially register with the department.
12 The organization's registration shall include proof of section
13 501(c)(3) status and provide a list of the schools the school
14 tuition organization serves. Once the school tuition
15 organization has registered, it is not required to
16 subsequently register unless the schools it serves changes.

17 d. Each school that is served by a school tuition
18 organization shall submit a participation form annually to the
19 department by October 15 providing the following information:

20 (1) Certified enrollment as of the third Friday of
21 September.

22 (2) The school tuition organization that represents the
23 school. A school shall only be represented by one school
24 tuition organization.

25 7. a. For purposes of this subsection:

26 (1) "Certified enrollment" means the enrollment at schools
27 served by school tuition organizations as indicated by
28 participation forms provided to the department each October.

29 (2) "Total approved tax credits" means for the tax year
30 beginning in the 2006 calendar year, two million five hundred
31 thousand dollars and for tax years beginning on or after
32 January 1, 2007, five million dollars.

33 (3) "Tuition grant" means grants to students to cover all
34 or part of the tuition at a qualified school.

35 b. Each year by November 15, the department shall

1 authorize school tuition organizations to issue tax credit
2 certificates for the following tax year. However, for the tax
3 year beginning in the 2006 calendar year only, the department,
4 by September 1, 2006, shall authorize school tuition
5 organizations to issue tax credit certificates for the 2006
6 calendar tax year. Tax credit certificates available for
7 issue by each school tuition organization shall be determined
8 in the following manner:

9 (1) Total the certified enrollment of each participating
10 qualified school to arrive at the total participating
11 certified enrollment.

12 (2) Determine the per student tax credit available by
13 dividing the total approved tax credits by the total
14 participating certified enrollment.

15 (3) Multiply the per student tax credit by the total
16 participating certified enrollment of each school tuition
17 organization.

18 8. A school tuition organization that receives a voluntary
19 cash contribution pursuant to this section shall report to the
20 department, on a form prescribed by the department, by January
21 12 of each tax year all of the following information:

22 a. The name, address, and contact name of the school
23 tuition organization.

24 b. The total number and dollar value of contributions
25 received and the total number and dollar value of the tax
26 credits approved during the previous tax year.

27 c. A list of the individual donors for the previous tax
28 year that includes the dollar value of each donation and the
29 dollar value of each approved tax credit.

30 d. The total number of children utilizing tuition grants
31 for the school year in progress and the total dollar value of
32 the grants.

33 e. The name and address of each represented school at
34 which tuition grants are currently being utilized, detailing
35 the number of tuition grant students and the total dollar

1 value of grants being utilized at each school served by the
2 school tuition organization.

3 Sec. 2. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.
4 This Act, being deemed of immediate importance, takes effect
5 upon enactment and applies retroactively to January 1, 2006,
6 for tax years beginning on or after that date.

7 EXPLANATION

8 This bill provides for an individual income tax credit
9 equal to a maximum of 65 percent of the voluntary
10 contributions made to a school tuition organization that is
11 exempt from federal income tax. At least 90 percent of total
12 contributions must be used by the school tuition organization
13 to provide tuition grants to students who are members of
14 households that have total annual incomes of less than 2.5
15 times the income standard used to qualify for the federal free
16 or reduced price school meals program. The contribution may
17 not be deducted as a charitable deduction for state tax
18 purposes or be designated for the direct benefit of the
19 taxpayer's dependents or any other student designated by the
20 taxpayer.

21 The school tuition organization must limit grants to
22 children that reside in Iowa, must provide grants to students
23 at more than one school, and only provide grants to students
24 of low-income families.

25 The tax credit is claimed by means of the attachment of tax
26 credit certificates to the taxpayer's tax return. A school
27 tuition organization is authorized to issue the tax credit
28 certificates in amounts equal to the total certified
29 enrollment of the schools served by it multiplied by a per
30 student tax credit amount. The amount is determined by
31 dividing the total approved tax credits by the total
32 enrollment of all of the schools served by the student tuition
33 organizations. The total approved tax credits are \$2.5
34 million for the 2006 tax year and \$5 million for all
35 subsequent tax years.

1 The school tuition organization must report to the
2 department of revenue information related to the amount of
3 contributions made to the organization, and the number, the
4 school, and the amount of grants awarded.

5 The bill takes effect upon enactment and applies
6 retroactively to tax years beginning on or after January 1,
7 2006.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2796 - School Tuition Organization Tax Credit (LSB 6727 HV)
Analyst: Jeff Robinson (Phone: [515] 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 2796 creates an individual income tax credit for contributions to a School Tuition Organization. The contribution may not be claimed as a deduction from Iowa income tax. Tax credits are equal to 65.0% of the contribution and are limited to a total of \$2.5 million for tax year 2006 and \$5.0 million for succeeding tax years.

The Bill is effective upon enactment and applies retroactively to January 1, 2006.

Assumptions

1. All awarded tax credits will be utilized.
2. Credits awarded for tax year 2006 will be redeemed with tax returns filed in the spring of 2007.

Fiscal Impact

The tax credits created in HF 2796 will reduce net General Fund revenue by \$2.5 million in FY 2007 and \$5.0 million in FY 2008 and succeeding tax years.

The tax credit will not impact the local option income tax surcharge for schools.

Source

Legislative Services Agency analysis

Dennis C Prouty

May 1, 2006

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 FILE 2796

H-8612

- 1 Amend House File 2796 as follows:
- 2 1. Page 2, by striking lines 8 through 11 and
- 3 inserting the following: "one-half times the most
- 4 recently published federal poverty guidelines in the
- 5 federal register by the United States department of
- 6 health and human services."

By JOCHUM of Dubuque

H-8612 FILED MAY 2, 2006

OUT OF ORDER

HOUSE FILE 2796

H-8619

- 1 Amend House File 2796 as follows:
- 2 1. Page 2, line 12, by inserting after the word
- 3 "means" the following: "a public elementary or
- 4 secondary school in this state or".

By WESSEL-KROESCHELL of Story

H-8619 FILED MAY 2, 2006

WITHDRAWN

HOUSE FILE 2796

H-8611

- 1 Amend House File 2796 as follows:
- 2 1. Page 1, line 5, by striking the word
- 3 "sixty-five" and inserting the following:
- 4 "thirty-five".

By SHOULTZ of Black Hawk

H-8611 FILED MAY 2, 2006

WITHDRAWN

HOUSE FILE 2796

H-8625

1 Amend House File 2796 as follows:

2 1. Page 2, by striking lines 7 through 11 and
3 inserting the following: "this section does not
4 exceed an amount equal to three times the most
5 recently published federal poverty guidelines in the
6 federal register by the United States department of
7 health and human services."

8 2. Page 3, line 9, by inserting after the figure
9 "7." the following: "However, a school tuition
10 organization shall not be authorized to issue tax
11 credit certificates unless the organization is
12 controlled by a board of directors consisting of seven
13 members. The names and addresses of the members shall
14 be provided to the department and shall be made
15 available by the department to the public,
16 notwithstanding any state confidentiality
17 restrictions."

18 3. Page 4, line 6, by inserting after the word
19 "year." the following: "For the tax year beginning in
20 the 2006 calendar year only, each school served by a
21 school tuition organization shall submit a
22 participation form to the department by August 1,
23 2006, providing the certified enrollment as of the
24 third Friday of September 2005, along with the school
25 tuition organization that represents the school."

26 4. Page 4, by striking line 22 and inserting the
27 following:

28 "a. The name and address of the members and the
29 chairperson of the governing board of the school".

By BOAL of Polk

H-8625 FILED MAY 2, 2006

ADOPTED

Boal, chair
Van Fossen, JK
Shomshoy

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ed B
2796

HSB 781
WAYS AND MEANS

HOUSE FILE _____
BY (COMMITTEE ON WAYS AND
MEANS BILL BY CHAIRPERSON
VAN FOSSEN)

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

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18 the contribution be used for the direct benefit of any
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10 Act and the federal Child Nutrition Act of 1966, 42 U.S.C. §
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15 (3) Multiply the per student tax credit by the total
16 participating certified enrollment of each school tuition
17 organization.

18 8. A school tuition organization that receives a voluntary
19 cash contribution pursuant to this section shall report to the
20 department, on a form prescribed by the department, by January
21 12 of each tax year all of the following information:

22 a. The name, address, and contact name of the school
23 tuition organization.

24 b. The total number and dollar value of contributions
25 received and the total number and dollar value of the tax
26 credits approved during the previous tax year.

27 c. A list of the individual donors for the previous tax
28 year that includes the dollar value of each donation and the
29 dollar value of each approved tax credit.

30 d. The total number of children utilizing tuition grants
31 for the school year in progress and the total dollar value of
32 the grants.

33 e. The name and address of each represented school at
34 which tuition grants are currently being utilized, detailing
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1 value of grants being utilized at each school served by the
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3 Sec. 2. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.
4 This Act, being deemed of immediate importance, takes effect
5 upon enactment and applies retroactively to January 1, 2006,
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