

MAR 1 1 2005
WAYS AND MEANS

HOUSE FILE 721
BY COMMITTEE ON ECONOMIC GROWTH

(SUCCESSOR TO HSB 139)

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

A BILL FOR

1 An Act relating to state individual income tax exemptions for
2 residents of border cities, replacement local option sales and
3 services, withholding tax credits, and property tax, and
4 including an effective date.

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

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HF 721

1 Section 1. Section 257.21, unnumbered paragraph 2, Code
2 2005, is amended to read as follows:

3 The instructional support income surtax shall be imposed on
4 the state individual income tax for the calendar year during
5 which the school's budget year begins, or for a taxpayer's
6 fiscal year ending during the second half of that calendar
7 year and after the date the board adopts a resolution to
8 participate in the program or the first half of the succeeding
9 calendar year, and shall be imposed on all individuals
10 residing in the school district on the last day of the
11 applicable tax year. As used in this section, "state
12 individual income tax" means the taxes computed under section
13 422.5, ~~less-the-credits~~ without the exemption in section
14 422.5, subsection 11, and with the credit adjustments allowed
15 in sections 422.11A, 422.11B, 422.12, and 422.12B.

16 Sec. 2. Section 384.12, Code 2005, is amended by adding
17 the following new subsection:

18 NEW SUBSECTION. 23. If the city is a border city, as
19 defined in section 422.126, that has approved a state income
20 tax exemption for its residents, a tax to provide funding to
21 reimburse the state for lost state income tax revenues as
22 provided in sections 422.125 through 422.130.

23 Sec. 3. Section 422.5, Code 2005, is amended by adding the
24 following new subsection:

25 NEW SUBSECTION. 11. If a border city has approved the
26 local option exemption for border city residents pursuant to
27 sections 422.125 through 422.130, the taxes under this
28 division, including the alternative minimum tax, shall not be
29 imposed on the exemption amount of a resident of that border
30 city and shall not be imposed on the exemption amount derived
31 by a nonresident of Iowa who lives in a border city outside of
32 Iowa from employment or business activity engaged in the Iowa
33 border city.

34 Sec. 4. NEW SECTION. 422.125 LEGISLATIVE FINDINGS AND
35 INTENT.

1 The general assembly realizes the inequities faced by
2 cities in this state and their inhabitants when the cities are
3 adjacent to another state in which the tax burden of the
4 citizens of the adjoining state is substantially less than the
5 tax burden imposed by the laws of this state upon the citizens
6 of a border city in this state.

7 The general assembly finds that these tax inequities offer
8 inducements to citizens who would otherwise settle in Iowa and
9 operate businesses in Iowa to move to the adjoining states.

10 The general assembly declares that the passage of this
11 division is designed to establish a method of equalizing the
12 inequities imposed under the tax laws of this state, thereby
13 offering inducements to persons to establish their homes and
14 businesses in the Iowa border city.

15 The general assembly further declares that the
16 reimbursement to the state by the border city under this
17 division in lieu of the state income tax on the exemption
18 amount of the residents of the border city shall be a benefit
19 to the state and all of its residents.

20 Sec. 5. NEW SECTION. 422.126 DEFINITIONS.

21 For the purposes of this division and unless the context
22 otherwise requires:

23 1. "Base year" means the fiscal year beginning immediately
24 prior to the effective date of the income tax exemption under
25 this division.

26 2. "Border city" means a city with a corporate limit that
27 is within five miles of the border of another state.

28 3. "Business" means any commercial, professional services,
29 or industrial enterprise engaged in interstate or intrastate
30 commerce, including, but not limited to, medical treatment
31 facilities, manufacturing facilities, corporate headquarters,
32 or research facilities. "Business" does not include a
33 business which closes or substantially reduces its operation
34 in one area of the state of Iowa and relocates substantially
35 the same operation to another area of the state of Iowa.

1 4. "Employee" means the individual employed in a targeted
2 job that is subject to a withholding agreement.

3 5. "Employer" means a business creating targeted jobs in a
4 border city pursuant to a withholding agreement.

5 6. "Exemption" means the amount of income that is not
6 subject to the state individual income taxes under division
7 II.

8 7. "Targeted job" means a job in a new or expanding
9 business which is or will be located in a border city, but
10 does not include jobs of recalled workers, or other jobs that
11 formerly existed in the business in the state of Iowa.

12 8. "Withholding agreement" means the agreement between a
13 border city and an employer concerning the targeted jobs
14 withholding credit authorized in section 422.129.

15 Sec. 6. NEW SECTION. 422.127 INCOME TAX EXEMPTION --
16 ELECTION.

17 1. The governing body of a border city may enact an
18 ordinance to exempt from the state income tax all or a portion
19 of the income of the residents of the border city, subject to
20 this section.

21 2. The ordinance to provide for the income tax exemption
22 shall only be effective after an election at which a majority
23 of those voting on the question favors the enactment of the
24 ordinance and a repeal of the ordinance shall only be
25 effective after a subsequent election at which a majority of
26 those voting on the question favors the repeal of the
27 ordinance.

28 3. The governing body may submit the question of the
29 enactment or repeal of the ordinance for the income tax
30 exemption on its own motion and shall submit the question upon
31 receipt of a valid petition of the voters of the city pursuant
32 to section 362.4.

33 4. The county commissioner of elections shall submit the
34 question of the enactment or repeal of the ordinance at the
35 time of the state general election, city regular election, or

1 special election. However, the election shall not be held
2 sooner than sixty days after publication of the ballot
3 proposition. The ballot proposition shall contain a statement
4 that an income tax exemption for the city's residents will be
5 enacted and that the city will be required to reimburse the
6 state for lost revenue as a result of the exemption. The
7 ballot proposition shall state the amount of the income tax
8 exemption. The ballot proposition shall also specify the
9 sources for reimbursing the state for the lost state income
10 tax revenue. If one of the sources is a local sales and
11 services tax, the rate, in increments of one or more full
12 percentage points, and the date of imposition of the tax shall
13 be specified.

14 5. If a majority of those voting on the question of
15 enactment or repeal of the ordinance favors enactment or
16 repeal, the ordinance or repeal is effective for an unlimited
17 period of time. If the ordinance is enacted, the income tax
18 exemption takes effect January 1 following the favorable
19 election and applies to tax years beginning on or after the
20 effective date. If the ordinance is repealed, the income tax
21 exemption is repealed effective January 1 following the
22 favorable election and applies to tax years beginning on or
23 after the effective date.

24 Sec. 7. NEW SECTION. 422.128 APPLICABILITY OF EXEMPTION.

25 1. A state income tax exemption enacted by ordinance under
26 this division only applies to individual taxpayers and not to
27 estates, trusts, corporations, or any other person.

28 2. An individual taxpayer residing outside Iowa is
29 entitled to the state income tax exemption with respect to
30 income derived from employment or business activity engaged in
31 in an Iowa border city that has approved the state income tax
32 exemption pursuant to this division.

33 3. The amount of the state income tax exemption shall be
34 set at one of the following:

35 a. One hundred percent or less of income.

1 b. A specific dollar amount of income.

2 c. A combination using a percentage along with a specific
3 dollar amount of income.

4 Sec. 8. NEW SECTION. 422.129 WITHHOLDING AGREEMENT --
5 TAX CREDIT -- FUND.

6 1. A border city may further provide by ordinance for the
7 repayment of any or all of the state reimbursement from
8 revenue derived from the targeted jobs withholding credit
9 described in this section. The targeted jobs withholding
10 credit shall be based upon the wages paid to the employees
11 pursuant to the withholding agreement.

12 2. An amount equal to three percent of the gross wages
13 paid by the employer to each employee under a withholding
14 agreement shall be credited from the payment made by the
15 employer pursuant to section 422.16. If the amount of the
16 withholding by the employer is less than three percent of the
17 gross wages paid to the employees covered by the withholding
18 agreement, then the employer shall receive a credit against
19 other withholding taxes due by the employer. The employer
20 shall remit the amount of the credit quarterly in the same
21 manner as withholding payments are reported to the department
22 of revenue, to the border city to be allocated to and when
23 collected paid into a targeted jobs withholding credit fund of
24 the border city in which the targeted jobs are located.

25 3. The border city shall enter into a withholding
26 agreement with each employer concerning the targeted jobs
27 withholding credit. The withholding agreement may have a term
28 of up to ten years and shall be provided promptly to the
29 department of revenue following its execution by the border
30 city and the employer. An employer shall not be obligated to
31 enter into a withholding agreement. Following termination of
32 the withholding agreement, the employer credits shall cease
33 and any money received by the border city or contained in the
34 fund of the border city after termination shall be remitted to
35 the treasurer of state to be deposited into the general fund

1 of the state.

2 4. The employer shall certify to the department of revenue
3 that the targeted jobs withholding credit is in accordance
4 with the withholding agreement and shall provide other
5 information the department may require.

6 5. A border city shall certify to the department of
7 revenue the amount of the targeted jobs withholding credit an
8 employer has remitted to the fund and shall provide other
9 information the department may require.

10 6. An employee whose wages are subject to a withholding
11 agreement shall receive full credit for the amount withheld as
12 provided in section 422.16.

13 Sec. 9. NEW SECTION. 422.130 REIMBURSEMENT OF LOSS TO
14 STATE -- FUNDING SOURCES.

15 1. A border city that has approved the state income tax
16 exemption shall reimburse the state for the estimated loss in
17 state income tax revenues attributable to the exemption. The
18 estimated loss shall be based on the estimated amount of state
19 income tax revenues received during the base year from
20 residents of the border city and nonresidents who were
21 employed or had business activities in the border city. The
22 amount of the reimbursement equals a percentage of such
23 estimated amount during the base year. The percentage shall
24 be estimated by the department after considering the amount of
25 the state income tax exemption.

26 2. Funding sources available to the border city for
27 reimbursement for the state consists of the following:

28 a. A local option sales and services tax without a rate
29 limitation. However, the rate shall be listed on the ballot
30 proposition and in a whole number.

31 b. A special property tax levy without rate limitation.

32 c. Targeted jobs withholding credits.

33 d. Any other city funds not otherwise dedicated for a
34 specific purpose.

35 e. Any combination of funding sources referred to in

1 paragraphs "a", "b", "c", and "d".

2 3. a. If a local option sales and services tax imposed in
3 the incorporated area of the border city is to be used to
4 partially or fully fund the reimbursement, the tax shall be
5 imposed either January 1 or July 1 following notification of
6 the director but not sooner than ninety days following the
7 favorable election and not sooner than sixty days following
8 notice to sellers, as defined in section 423.1.

9 b. The provisions relating to the imposition of the local
10 sales and services tax in section 423B.5, the administration
11 of such tax in section 423B.6, and the refunds for
12 construction contractors in section 423B.8 apply to the local
13 option sales and services tax imposed by a border city, except
14 that the rate shall be as specified on the ballot proposition,
15 references to the county shall mean the border city, and other
16 provisions inconsistent with the intent and workings of this
17 tax shall not be considered.

18 Sec. 10. Section 422D.2, Code 2005, is amended to read as
19 follows:

20 422D.2 LOCAL INCOME SURTAX.

21 A county may impose by ordinance a local income surtax as
22 provided in section 422D.1 at the rate set by the board of
23 supervisors, of up to one percent, on the state individual
24 income tax of each individual residing in the county at the
25 end of the individual's applicable tax year. However, the
26 cumulative total of the percents of income surtax imposed on
27 any taxpayer in the county shall not exceed twenty percent.
28 The reason for imposing the surtax and the amount needed shall
29 be set out in the ordinance. The surtax rate shall be set to
30 raise only the amount needed. For purposes of this section,
31 "state individual income tax" means the tax computed under
32 section 422.5, ~~less-the-credits~~ without the exemption in
33 section 422.5, subsection 11, and with the credit adjustments
34 allowed in sections 422.11A, 422.11B, 422.12, and 422.12B.

35 Sec. 11. EFFECTIVE DATE. This Act, being deemed of

1 immediate importance, takes effect upon enactment.

2 EXPLANATION

3 This bill provides that a border city may vote to exempt
4 the residents of the city from all or a portion of the state
5 individual income tax. A border city is one with a corporate
6 limit that is within five miles of another state. The vote
7 taken must be a citywide election at which a majority votes in
8 favor of the exemption as well as in favor of reimbursement to
9 the state from a specified source of the estimated loss to the
10 state attributable to the exemption. The funding for the
11 reimbursement is optional and may consist of a local option
12 sales and services tax with no rate limit, a special property
13 tax with no rate limit, a credit on amounts withheld for state
14 tax purposes, or any other funds available to the city which
15 are not otherwise dedicated to another purpose. The sources
16 for reimbursement must be on the ballot and the sales tax rate
17 must also be on the ballot if that is to be one of the funding
18 sources.

19 The bill provides that income surtaxes for schools and
20 emergency medical services are not affected by the exemption
21 provided border city residents.

22 The bill takes effect upon enactment.

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Soderberg, Chr.
S. Olson
Anderson
Wise
Helen Miller

HSB 139
ECONOMIC GROWTH

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
ECONOMIC GROWTH BILL BY
CHAIRPERSON HOFFMAN)

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

A BILL FOR

1 An Act relating to state individual income tax exemptions for
2 residents of border cities, replacement local option sales and
3 services and property tax, and including an effective date.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 257.21, unnumbered paragraph 2, Code
2 2005, is amended to read as follows:

3 The instructional support income surtax shall be imposed on
4 the state individual income tax for the calendar year during
5 which the school's budget year begins, or for a taxpayer's
6 fiscal year ending during the second half of that calendar
7 year and after the date the board adopts a resolution to
8 participate in the program or the first half of the succeeding
9 calendar year, and shall be imposed on all individuals
10 residing in the school district on the last day of the
11 applicable tax year. As used in this section, "state
12 individual income tax" means the taxes computed under section
13 422.5, ~~less-the-credits~~ without the exemption in section
14 422.5, subsection 11, and with the credit adjustments allowed
15 in sections 422.11A, 422.11B, 422.12, and 422.12B.

16 Sec. 2. Section 384.12, Code 2005, is amended by adding
17 the following new subsection:

18 NEW SUBSECTION. 23. If the city is a border city, as
19 defined in section 422.125, that has approved a state income
20 tax exemption for its residents, a tax to provide funding to
21 reimburse the state for lost state income tax revenues as
22 provided in sections 422.125 through 422.129.

23 Sec. 3. Section 422.5, Code 2005, Code 2005, is amended by
24 adding the following new subsection:

25 NEW SUBSECTION. 11. If a border city has approved the
26 local option exemption for border city residents pursuant to
27 sections 422.125 through 422.129, the taxes under this
28 division, including the alternative minimum tax, shall not be
29 imposed on the net income of a resident of that border city
30 and shall not be imposed on the income derived by a
31 nonresident of Iowa who lives in a border city outside of Iowa
32 from employment or business activity engaged in the Iowa
33 border city.

34 Sec. 4. NEW SECTION. 422.125 LEGISLATIVE FINDINGS AND
35 INTENT.

1 The general assembly realizes the inequities faced by
2 cities in this state and their inhabitants when the cities are
3 adjacent to an incorporated city or town in another state in
4 which the tax burden of the citizens of the city or town in
5 the adjoining state is substantially less than the tax burden
6 imposed by the laws of this state upon the citizens of a
7 border city in this state.

8 The general assembly finds that these tax inequities offer
9 inducements to citizens who would otherwise settle in Iowa and
10 operate businesses in Iowa to move to the border cities in the
11 adjoining states.

12 The general assembly declares that the passage of this
13 division is designed to establish a method of equalizing the
14 inequities imposed under the tax laws of this state, thereby
15 offering inducements to persons to establish their homes and
16 businesses in the Iowa border city.

17 The general assembly further declares that the
18 reimbursement to the state by the border city under this
19 division in lieu of the state income tax on the residents of
20 the border city shall be a benefit to the state and all of its
21 residents.

22 Sec. 5. NEW SECTION. 422.126 DEFINITIONS.

23 For the purposes of this division and unless the context
24 otherwise requires:

25 1. "Base year" means the fiscal year beginning immediately
26 prior to the effective date of the income tax exemption under
27 this division.

28 2. "Border city" means a city that is contiguous to a city
29 or town in another state or is within five miles of a city or
30 town in another state.

31 Sec. 6. NEW SECTION. 422.127 INCOME TAX EXEMPTION --
32 ELECTION.

33 1. The governing body of a border city may enact an
34 ordinance to exempt from the state income tax the income of
35 the residents of the border city, subject to this section.

1 2. The ordinance to provide for the income tax exemption
2 shall only be effective after an election at which a majority
3 of those voting on the question favors the enactment of the
4 ordinance and a repeal of the ordinance shall only be
5 effective after a subsequent election at which a majority of
6 those voting on the question favors the repeal of the
7 ordinance.

8 3. The governing body may submit the question of the
9 enactment or repeal of the ordinance for the income tax
10 exemption on its own motion and shall submit the question upon
11 receipt of a valid petition of the voters of the city pursuant
12 to section 362.4.

13 4. The county commissioner of elections shall submit the
14 question of the enactment or repeal of the ordinance at the
15 time of the state general election, city regular election, or
16 special election. However, the election shall not be held
17 sooner than sixty days after publication of the ballot
18 proposition. The ballot proposition shall contain a statement
19 that an income tax exemption for the city's residents will be
20 enacted and that the city will be required to reimburse the
21 state for lost revenue as a result of the exemption. The
22 ballot proposition shall also specify the sources for
23 reimbursing the state for the lost state income tax revenue.
24 If one of the sources is a local sales and services tax, the
25 rate, in increments of one or more full percentage points, and
26 the date of imposition of the tax shall be specified.

27 5. If a majority of those voting on the question of
28 enactment or repeal of the ordinance favors enactment or
29 repeal, the ordinance or repeal is effective for an unlimited
30 period of time. If the ordinance is enacted, the income tax
31 exemption takes effect January 1 following the favorable
32 election and applies to tax years beginning on or after the
33 effective date. If the ordinance is repealed, the income tax
34 exemption is repealed effective January 1 following the
35 favorable election and applies to tax years beginning on or

1 after the effective date.

2 Sec. 7. NEW SECTION. 422.128 APPLICABILITY OF EXEMPTION.

3 1. A state income tax exemption enacted by ordinance under
4 this division only applies to individual taxpayers and not to
5 estates, trusts, corporations, or any other person.

6 2. An individual taxpayer residing in a border city or
7 town located outside Iowa is entitled to the state income tax
8 exemption with respect to income derived from employment or
9 business activity engaged in in an Iowa border city that has
10 approved the state income tax exemption pursuant to this
11 division.

12 Sec. 8. NEW SECTION. 422.129 REIMBURSEMENT OF LOSS TO
13 STATE -- FUNDING SOURCES.

14 1. A border city that has approved the state income tax
15 exemption shall reimburse the state for the estimated loss in
16 state income tax revenues attributable to the exemption. The
17 estimated loss shall be based on the estimated amount of state
18 income tax revenues received during the base year from
19 residents of the border city and nonresidents who were
20 employed or had business activities in the border city. The
21 amount of the reimbursement equals one hundred percent of such
22 estimated amount during the base year.

23 2. Funding sources available to the border city for
24 reimbursement for the state consists of the following:

25 a. A local option sales and services tax without a rate
26 limitation. However, the rate shall be listed on the ballot
27 proposition and in a whole number.

28 b. A special property tax levy without rate limitation.

29 c. Any other city funds not otherwise dedicated for a
30 specific purpose.

31 d. Any combination of funding sources referred to in
32 paragraphs "a", "b", and "c".

33 3. a. If a local option sales and services tax imposed in
34 the incorporated area of the border city is to be used to
35 partially or fully fund the reimbursement, the tax shall be

1 imposed either January 1 or July 1 following notification of
2 the director but not sooner than ninety days following the
3 favorable election and not sooner than sixty days following
4 notice to sellers, as defined in section 423.1.

5 b. The provisions relating to the imposition of the local
6 sales and services tax in section 423B.5, the administration
7 of such tax in section 423B.6, and the refunds for
8 construction contractors in section 423B.8 apply to the local
9 option sales and services tax imposed by a border city, except
10 that the rate shall be as specified on the ballot proposition,
11 references to the county shall mean the border city, and other
12 provisions inconsistent with the intent and workings of this
13 tax shall not be considered.

14 Sec. 9. Section 422D.2, Code 2005, is amended to read as
15 follows:

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17 A county may impose by ordinance a local income surtax as
18 provided in section 422D.1 at the rate set by the board of
19 supervisors, of up to one percent, on the state individual
20 income tax of each individual residing in the county at the
21 end of the individual's applicable tax year. However, the
22 cumulative total of the percents of income surtax imposed on
23 any taxpayer in the county shall not exceed twenty percent.
24 The reason for imposing the surtax and the amount needed shall
25 be set out in the ordinance. The surtax rate shall be set to
26 raise only the amount needed. For purposes of this section,
27 "state individual income tax" means the tax computed under
28 section 422.5, ~~less-the-credits~~ without the exemption in
29 section 422.5, subsection 11, and with the credit adjustments
30 allowed in sections 422.11A, 422.11B, 422.12, and 422.12B.

31 Sec. 10. EFFECTIVE DATE. This Act, being deemed of
32 immediate importance, takes effect upon enactment.

33 EXPLANATION

34 This bill provides that a border city may vote to exempt
35 the residents of the city from the state individual income

1 tax. A border city is one that is contiguous to a city or
2 town in another state or is within five miles of a city or
3 town in another state. The vote taken must be a citywide
4 election at which a majority votes in favor of the exemption
5 as well as in favor of reimbursement to the state from a
6 specified source of the estimated loss to the state
7 attributable to the exemption. The funding for the
8 reimbursement is optional and may consist of a local option
9 sales and services tax with no rate limit, a special property
10 tax with no rate limit, or any other funds available to the
11 city which are not otherwise dedicated to another purpose.
12 Only the sales tax must be on the ballot if that is to be one
13 of the funding sources and the rate must be specified.

14 The bill provides that income surtaxes for schools and
15 emergency medical services are not affected by the exemption
16 provided border city residents.

17 The bill takes effect upon enactment.

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