

House Study Bill 139

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:
5 TLSB 2244YC 81
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1 1 Section 1. Section 257.21, unnumbered paragraph 2, Code
1 2 2005, is amended to read as follows:
1 3 The instructional support income surtax shall be imposed on
1 4 the state individual income tax for the calendar year during
1 5 which the school's budget year begins, or for a taxpayer's
1 6 fiscal year ending during the second half of that calendar
1 7 year and after the date the board adopts a resolution to
1 8 participate in the program or the first half of the succeeding
1 9 calendar year, and shall be imposed on all individuals
1 10 residing in the school district on the last day of the
1 11 applicable tax year. As used in this section, "state
1 12 individual income tax" means the taxes computed under section
1 13 422.5, ~~less the credits without the exemption in section~~
1 14 ~~422.5, subsection 11, and with the credit adjustments allowed~~
1 15 in sections 422.11A, 422.11B, 422.12, and 422.12B.
1 16 Sec. 2. Section 384.12, Code 2005, is amended by adding
1 17 the following new subsection:
1 18 NEW SUBSECTION. 23. If the city is a border city, as
1 19 defined in section 422.125, that has approved a state income
1 20 tax exemption for its residents, a tax to provide funding to
1 21 reimburse the state for lost state income tax revenues as
1 22 provided in sections 422.125 through 422.129.
1 23 Sec. 3. Section 422.5, Code 2005, Code 2005, is amended by
1 24 adding the following new subsection:
1 25 NEW SUBSECTION. 11. If a border city has approved the
1 26 local option exemption for border city residents pursuant to
1 27 sections 422.125 through 422.129, the taxes under this
1 28 division, including the alternative minimum tax, shall not be
1 29 imposed on the net income of a resident of that border city
1 30 and shall not be imposed on the income derived by a
1 31 nonresident of Iowa who lives in a border city outside of Iowa
1 32 from employment or business activity engaged in the Iowa
1 33 border city.
1 34 Sec. 4. NEW SECTION. 422.125 LEGISLATIVE FINDINGS AND
1 35 INTENT.
2 1 The general assembly realizes the inequities faced by
2 2 cities in this state and their inhabitants when the cities are
2 3 adjacent to an incorporated city or town in another state in
2 4 which the tax burden of the citizens of the city or town in
2 5 the adjoining state is substantially less than the tax burden
2 6 imposed by the laws of this state upon the citizens of a
2 7 border city in this state.
2 8 The general assembly finds that these tax inequities offer
2 9 inducements to citizens who would otherwise settle in Iowa and
2 10 operate businesses in Iowa to move to the border cities in the
2 11 adjoining states.
2 12 The general assembly declares that the passage of this
2 13 division is designed to establish a method of equalizing the
2 14 inequities imposed under the tax laws of this state, thereby
2 15 offering inducements to persons to establish their homes and
2 16 businesses in the Iowa border city.
2 17 The general assembly further declares that the

2 18 reimbursement to the state by the border city under this
2 19 division in lieu of the state income tax on the residents of
2 20 the border city shall be a benefit to the state and all of its
2 21 residents.

2 22 Sec. 5. NEW SECTION. 422.126 DEFINITIONS.

2 23 For the purposes of this division and unless the context
2 24 otherwise requires:

2 25 1. "Base year" means the fiscal year beginning immediately
2 26 prior to the effective date of the income tax exemption under
2 27 this division.

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

2 31 Sec. 6. NEW SECTION. 422.127 INCOME TAX EXEMPTION ==
2 32 ELECTION.

2 33 1. The governing body of a border city may enact an
2 34 ordinance to exempt from the state income tax the income of
2 35 the residents of the border city, subject to this section.

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

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

3 13 4. The county commissioner of elections shall submit the
3 14 question of the enactment or repeal of the ordinance at the
3 15 time of the state general election, city regular election, or
3 16 special election. However, the election shall not be held
3 17 sooner than sixty days after publication of the ballot
3 18 proposition. The ballot proposition shall contain a statement
3 19 that an income tax exemption for the city's residents will be
3 20 enacted and that the city will be required to reimburse the
3 21 state for lost revenue as a result of the exemption. The
3 22 ballot proposition shall also specify the sources for
3 23 reimbursing the state for the lost state income tax revenue.
3 24 If one of the sources is a local sales and services tax, the
3 25 rate, in increments of one or more full percentage points, and
3 26 the date of imposition of the tax shall be specified.

3 27 5. If a majority of those voting on the question of
3 28 enactment or repeal of the ordinance favors enactment or
3 29 repeal, the ordinance or repeal is effective for an unlimited
3 30 period of time. If the ordinance is enacted, the income tax
3 31 exemption takes effect January 1 following the favorable
3 32 election and applies to tax years beginning on or after the
3 33 effective date. If the ordinance is repealed, the income tax
3 34 exemption is repealed effective January 1 following the
3 35 favorable election and applies to tax years beginning on or
4 1 after the effective date.

4 2 Sec. 7. NEW SECTION. 422.128 APPLICABILITY OF EXEMPTION.

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

4 6 2. An individual taxpayer residing in a border city or
4 7 town located outside Iowa is entitled to the state income tax
4 8 exemption with respect to income derived from employment or
4 9 business activity engaged in in an Iowa border city that has
4 10 approved the state income tax exemption pursuant to this
4 11 division.

4 12 Sec. 8. NEW SECTION. 422.129 REIMBURSEMENT OF LOSS TO
4 13 STATE == FUNDING SOURCES.

4 14 1. A border city that has approved the state income tax
4 15 exemption shall reimburse the state for the estimated loss in
4 16 state income tax revenues attributable to the exemption. The
4 17 estimated loss shall be based on the estimated amount of state
4 18 income tax revenues received during the base year from
4 19 residents of the border city and nonresidents who were
4 20 employed or had business activities in the border city. The
4 21 amount of the reimbursement equals one hundred percent of such
4 22 estimated amount during the base year.

4 23 2. Funding sources available to the border city for
4 24 reimbursement for the state consists of the following:

4 25 a. A local option sales and services tax without a rate
4 26 limitation. However, the rate shall be listed on the ballot
4 27 proposition and in a whole number.

4 28 b. A special property tax levy without rate limitation.

4 29 c. Any other city funds not otherwise dedicated for a
4 30 specific purpose.

4 31 d. Any combination of funding sources referred to in
4 32 paragraphs "a", "b", and "c".

4 33 3. a. If a local option sales and services tax imposed in
4 34 the incorporated area of the border city is to be used to
4 35 partially or fully fund the reimbursement, the tax shall be
5 1 imposed either January 1 or July 1 following notification of
5 2 the director but not sooner than ninety days following the
5 3 favorable election and not sooner than sixty days following
5 4 notice to sellers, as defined in section 423.1.

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

5 14 Sec. 9. Section 422D.2, Code 2005, is amended to read as
5 15 follows:

5 16 422D.2 LOCAL INCOME SURTAX.

5 17 A county may impose by ordinance a local income surtax as
5 18 provided in section 422D.1 at the rate set by the board of
5 19 supervisors, of up to one percent, on the state individual
5 20 income tax of each individual residing in the county at the
5 21 end of the individual's applicable tax year. However, the
5 22 cumulative total of the percents of income surtax imposed on
5 23 any taxpayer in the county shall not exceed twenty percent.
5 24 The reason for imposing the surtax and the amount needed shall
5 25 be set out in the ordinance. The surtax rate shall be set to
5 26 raise only the amount needed. For purposes of this section,
5 27 "state individual income tax" means the tax computed under
5 28 section 422.5, ~~less the credits without the exemption in~~
5 29 ~~section 422.5, subsection 11, and with the credit adjustments~~
5 30 allowed in sections 422.11A, 422.11B, 422.12, and 422.12B.

5 31 Sec. 10. EFFECTIVE DATE. This Act, being deemed of
5 32 immediate importance, takes effect upon enactment.

5 33 EXPLANATION

5 34 This bill provides that a border city may vote to exempt
5 35 the residents of the city from the state individual income
6 1 tax. A border city is one that is contiguous to a city or
6 2 town in another state or is within five miles of a city or
6 3 town in another state. The vote taken must be a citywide
6 4 election at which a majority votes in favor of the exemption
6 5 as well as in favor of reimbursement to the state from a
6 6 specified source of the estimated loss to the state
6 7 attributable to the exemption. The funding for the
6 8 reimbursement is optional and may consist of a local option
6 9 sales and services tax with no rate limit, a special property
6 10 tax with no rate limit, or any other funds available to the
6 11 city which are not otherwise dedicated to another purpose.
6 12 Only the sales tax must be on the ballot if that is to be one
6 13 of the funding sources and the rate must be specified.

6 14 The bill provides that income surtaxes for schools and
6 15 emergency medical services are not affected by the exemption
6 16 provided border city residents.

6 17 The bill takes effect upon enactment.

6 18 LSB 2244YC 81

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