

Senate Study Bill 3279

SENATE FILE _____
BY (COMMITTEE ON WAYS
AND MEANS BILL BY
CO=CHAIRPERSON ZIEMAN)

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
3 effective and retroactive applicability date provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
5 TLSB 6727XK 81
6 mg/je/5

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1 1 Section 1. NEW SECTION. 422.11M SCHOOL TUITION
1 2 ORGANIZATION TAX CREDIT.
1 3 1. The taxes imposed under this division less the credits
1 4 allowed under sections 422.12 and 422.12B shall be reduced by
1 5 a school tuition organization tax credit equal to sixty=five
1 6 percent of the amount of the voluntary cash contributions made
1 7 by the taxpayer during the tax year to a school tuition
1 8 organization, subject to the total dollar value of the
1 9 organization's tax credit certificates as computed in
1 10 subsection 7. The tax credit shall be claimed by use of a tax
1 11 credit certificate as provided in subsection 6.
1 12 2. To be eligible for this credit, all of the following
1 13 shall apply:
1 14 a. A deduction pursuant to section 170 of the Internal
1 15 Revenue Code for any amount of the contribution is not taken
1 16 for state tax purposes.
1 17 b. The contribution does not designate that any part of
1 18 the contribution be used for the direct benefit of any
1 19 dependent of the taxpayer or any other student designated by
1 20 the taxpayer.
1 21 3. Any credit in excess of the tax liability is not
1 22 refundable but the excess for the tax year may be credited to
1 23 the tax liability for the following five tax years or until
1 24 depleted, whichever is the earlier.
1 25 4. Married taxpayers who file separate returns or file
1 26 separately on a combined return form must determine the tax
1 27 credit under subsection 1, based upon their combined net
1 28 income and allocate the total credit amount to each spouse in
1 29 the proportion that each spouse's respective net income bears
1 30 to the total combined net income. Nonresidents or part=year
1 31 residents of Iowa must determine their tax credit in the ratio
1 32 of their Iowa source net income to their all source net
1 33 income. Nonresidents or part=year residents who are married
1 34 and elect to file separate returns or to file separately on a
1 35 combined return form must allocate the tax credit between the
2 1 spouses in the ratio of each spouse's Iowa source net income
2 2 to the combined Iowa source net income of the taxpayers.
2 3 5. For purposes of this section:
2 4 a. "Eligible student" means a student who is a member of a
2 5 household whose total annual income during the calendar year
2 6 before the student receives a tuition grant for purposes of
2 7 this section does not exceed an amount equal to two and
2 8 one=half times the income standard used to qualify for free or
2 9 reduced price meals under the federal National School Lunch
2 10 Act and the federal Child Nutrition Act of 1966, 42 U.S.C. }
2 11 1751-1785.
2 12 b. "Qualified school" means a nonpublic elementary or
2 13 secondary school in this state which is accredited under
2 14 section 256.11 and adheres to the provisions of the federal
2 15 Civil Rights Act of 1964 and chapter 216.

2 16 c. "School tuition organization" means a charitable
2 17 organization in this state that is exempt from federal
2 18 taxation under section 501(c)(3) of the Internal Revenue Code
2 19 and that does all of the following:

2 20 (1) Allocates at least ninety percent of its annual
2 21 revenue in tuition grants for children to allow them to attend
2 22 a qualified school of their parents' choice.

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

2 25 (3) Provides tuition grants to students without limiting
2 26 availability to only students of one school.

2 27 (4) Only provides tuition grants to eligible students.

2 28 (5) Prepares an annual reviewed financial statement
2 29 certified by a public accounting firm.

2 30 6. a. In order for the taxpayer to claim the school
2 31 tuition organization tax credit under subsection 1, a tax
2 32 credit certificate issued by the school tuition organization
2 33 to which the contribution was made shall be attached to the
2 34 person's tax return. The tax credit certificate shall contain
2 35 the taxpayer's name, address, tax identification number, the
3 1 amount of the contribution, the amount of the credit, and
3 2 other information required by the department.

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

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

3 17 d. Each school that is served by a school tuition
3 18 organization shall submit a participation form annually to the
3 19 department by October 15 providing the following information:

3 20 (1) Certified enrollment as of the third Friday of
3 21 September.

3 22 (2) The school tuition organization that represents the
3 23 school. A school shall only be represented by one school
3 24 tuition organization.

3 25 7. a. For purposes of this subsection:

3 26 (1) "Certified enrollment" means the enrollment at schools
3 27 served by school tuition organizations as indicated by
3 28 participation forms provided to the department each October.

3 29 (2) "Total approved tax credits" means for the tax year
3 30 beginning in the 2006 calendar year, two million five hundred
3 31 thousand dollars and for tax years beginning on or after
3 32 January 1, 2007, five million dollars.

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

3 35 b. Each year by November 15, the department shall
4 1 authorize school tuition organizations to issue tax credit
4 2 certificates for the following tax year. However, for the tax
4 3 year beginning in the 2006 calendar year only, the department,
4 4 by September 1, 2006, shall authorize school tuition
4 5 organizations to issue tax credit certificates for the 2006
4 6 calendar tax year. Tax credit certificates available for
4 7 issue by each school tuition organization shall be determined
4 8 in the following manner:

4 9 (1) Total the certified enrollment of each participating
4 10 qualified school to arrive at the total participating
4 11 certified enrollment.

4 12 (2) Determine the per student tax credit available by
4 13 dividing the total approved tax credits by the total
4 14 participating certified enrollment.

4 15 (3) Multiply the per student tax credit by the total
4 16 participating certified enrollment of each school tuition
4 17 organization.

4 18 8. A school tuition organization that receives a voluntary
4 19 cash contribution pursuant to this section shall report to the
4 20 department, on a form prescribed by the department, by January
4 21 12 of each tax year all of the following information:

4 22 a. The name, address, and contact name of the school
4 23 tuition organization.

4 24 b. The total number and dollar value of contributions
4 25 received and the total number and dollar value of the tax
4 26 credits approved during the previous tax year.

4 27 c. A list of the individual donors for the previous tax
4 28 year that includes the dollar value of each donation and the
4 29 dollar value of each approved tax credit.

4 30 d. The total number of children utilizing tuition grants
4 31 for the school year in progress and the total dollar value of
4 32 the grants.

4 33 e. The name and address of each represented school at
4 34 which tuition grants are currently being utilized, detailing
4 35 the number of tuition grant students and the total dollar
5 1 value of grants being utilized at each school served by the
5 2 school tuition organization.

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

5 7 EXPLANATION

5 8 This bill provides for an individual income tax credit
5 9 equal to a maximum of 65 percent of the voluntary
5 10 contributions made to a school tuition organization that is
5 11 exempt from federal income tax. At least 90 percent of total
5 12 contributions must be used by the school tuition organization
5 13 to provide tuition grants to students who are members of
5 14 households that have total annual incomes of less than 2.5
5 15 times the income standard used to qualify for the federal free
5 16 or reduced price school meals program. The contribution may
5 17 not be deducted as a charitable deduction for state tax
5 18 purposes or be designated for the direct benefit of the
5 19 taxpayer's dependents or any other student designated by the
5 20 taxpayer.

5 21 The school tuition organization must limit grants to
5 22 children that reside in Iowa, must provide grants to students
5 23 at more than one school, and only provide grants to students
5 24 of low-income families.

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

6 1 The school tuition organization must report to the
6 2 department of revenue information related to the amount of
6 3 contributions made to the organization, and the number, the
6 4 school, and the amount of grants awarded.

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

6 8 LSB 6727XK 81

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