

House File 3 - Introduced

HOUSE FILE 3

BY SANDS, PAULSEN, UPMEYER,
S. OLSON, SODERBERG,
BRANDENBURG, DRAKE,
GARRETT, L. MILLER,
RAYHONS, SHEETS,
FORRISTALL, BYRNES,
HIGHFILL, HUSEMAN, LOFGREN,
ALONS, PETTENGILL, HAGENOW,
SALMON, FISHER, BACON,
KOESTER, LANDON, HESS,
SCHULTZ, BALTIMORE, SHAW,
STANERSON, VANDER LINDEN,
FRY, HEIN, COSTELLO,
ROGERS, BAUDLER, HANUSA,
MOORE, WATTS, R. TAYLOR,
HEARTSILL, GRASSLEY,
JORGENSEN, GASSMAN,
DOLECHECK, KLEIN,
WINDSCHITL, WORTHAN,
MAXWELL, COWNIE, J. SMITH,
KAUFMANN, HEATON, and DEYOE

A BILL FOR

1 An Act relating to the individual income tax by creating an
2 alternative base income tax imposed at the election of
3 the taxpayer and including effective date and retroactive
4 applicability provisions.

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

DIVISION I

ALTERNATIVE BASE INCOME TAX

Section 1. NEW SECTION. 422.5A Tax imposed — alternative base income tax.

1. For purposes of this section, "base income" means the adjusted gross income before the net operating loss deduction as properly computed for federal income tax purposes under the Internal Revenue Code, less a standard deduction equal to six thousand two hundred thirty-five dollars for a married person who files separately or a single person or equal to twelve thousand four hundred seventy dollars for a married couple who files a joint return, a surviving spouse, or a head of household.

2. Notwithstanding any other provision of law, a resident or nonresident may, in lieu of the taxes imposed under section 422.5, elect to be subject to state income tax as imposed and computed pursuant to subsection 3. Such election must be made not later than the due date for filing the return for a taxable year, including extensions thereof, and under rules to be prescribed by the director.

3. A tax is imposed upon every resident and nonresident of the state making the election under subsection 2 which tax shall be levied, collected, and paid annually in an amount equal to the base income of the resident or nonresident times four and one-half percent.

4. Notwithstanding any other provision of law, a resident or nonresident making the election under subsection 2 shall not be allowed any nonrefundable or refundable credit otherwise allowed under this division for the tax year for which the election is made, except for the credits for withheld tax and estimated tax paid under section 422.16.

DIVISION II

CONFORMING CHANGES

Sec. 2. Section 68A.102, subsection 21, Code 2013, is amended to read as follows:

1 21. *"State income tax liability"* means either the state
2 individual income tax imposed under section 422.5, less the
3 amounts of nonrefundable credits allowed under chapter 422,
4 division II, or the alternative base income tax imposed under
5 section 422.5A if applicable.

6 Sec. 3. Section 257.21, unnumbered paragraph 2, Code 2013,
7 is amended to read as follows:

8 The instructional support income surtax shall be imposed on
9 the state individual income tax for the calendar year during
10 which the school's budget year begins, or for a taxpayer's
11 fiscal year ending during the second half of that calendar year
12 and after the date the board adopts a resolution to participate
13 in the program or the first half of the succeeding calendar
14 year, and shall be imposed on all individuals residing in the
15 school district on the last day of the applicable tax year. As
16 used in this section, *"state individual income tax"* means either
17 the taxes computed under section 422.5, less the amounts of
18 nonrefundable credits allowed under chapter 422, division II,
19 or the tax computed under section 422.5A if applicable.

20 Sec. 4. Section 422.16, subsection 8, Code 2013, is amended
21 to read as follows:

22 8. An employer or withholding agent shall be liable for
23 the payment of the tax required to be deducted and withheld
24 or the amount actually deducted, whichever is greater, under
25 subsections 1 and 12 of this section; and any amount deducted
26 and withheld as tax under subsections 1 and 12 of this section
27 during any calendar year upon the wages of any employee,
28 nonresident, or other person shall be allowed as a credit to
29 the employee, nonresident, or other person against the tax
30 imposed by section 422.5, or section 422.5A if applicable,
31 irrespective of whether or not such tax has been, or will
32 be, paid over by the employer or withholding agent to the
33 department as provided by this chapter.

34 Sec. 5. Section 422.21, subsection 1, Code 2013, is amended
35 to read as follows:

1 1. Returns shall be in the form the director prescribes,
2 and shall be filed with the department on or before the last
3 day of the fourth month after the expiration of the tax year.
4 However, cooperative associations as defined in section 6072(d)
5 of the Internal Revenue Code shall file their returns on or
6 before the fifteenth day of the ninth month following the
7 close of the taxable year and nonprofit corporations subject
8 to the unrelated business income tax imposed by section
9 422.33, subsection 1A, shall file their returns on or before
10 the fifteenth day of the fifth month following the close of
11 the taxable year. If, under the Internal Revenue Code, a
12 corporation is required to file a return covering a tax period
13 of less than twelve months, the state return shall be for the
14 same period and is due forty-five days after the due date of
15 the federal tax return, excluding any extension of time to
16 file. In case of sickness, absence, or other disability, or
17 if good cause exists, the director may allow further time for
18 filing returns. The director shall cause to be prepared blank
19 forms for the returns and shall cause them to be distributed
20 throughout the state and to be furnished upon application,
21 but failure to receive or secure the form does not relieve
22 the taxpayer from the obligation of making a return that is
23 required. The department may as far as consistent with the
24 Code draft income tax forms to conform to the income tax
25 forms of the internal revenue department of the United States
26 government. Each return by a taxpayer upon whom a tax is
27 imposed by section 422.5 or 422.5A shall show the county of the
28 residence of the taxpayer.

29 Sec. 6. Section 422D.2, Code 2013, is amended to read as
30 follows:

31 **422D.2 Local income surtax.**

32 A county may impose by ordinance a local income surtax as
33 provided in section 422D.1 at the rate set by the board of
34 supervisors, of up to one percent, on the state individual
35 income tax of each individual residing in the county at the

1 end of the individual's applicable tax year. However, the
2 cumulative total of the percents of income surtax imposed on
3 any taxpayer in the county shall not exceed twenty percent.
4 The reason for imposing the surtax and the amount needed shall
5 be set out in the ordinance. The surtax rate shall be set to
6 raise only the amount needed. For purposes of this section,
7 "state individual income tax" means either the tax computed
8 under section 422.5, less the amounts of nonrefundable credits
9 allowed under chapter 422, division II, or the tax computed
10 under section 422.5A if applicable.

11 DIVISION III

12 IMPLEMENTATION

13 Sec. 7. EFFECTIVE UPON ENACTMENT. This Act, being deemed of
14 immediate importance, takes effect upon enactment.

15 Sec. 8. RETROACTIVE APPLICABILITY. This Act applies
16 retroactively to January 1, 2013, for tax years beginning on
17 or after that date.

18 EXPLANATION

19 This bill relates to the individual income tax by creating
20 an alternative base income tax imposed at the election of the
21 taxpayer.

22 Division I relates to the computation and imposition of an
23 alternative base income tax.

24 In lieu of the regular personal net income tax computed and
25 imposed under Code section 422.5, a resident or nonresident
26 individual may elect to be subject to an alternative base
27 income tax as provided in the division. An election must be
28 made not later than the due date for filing the return for
29 a taxable year, including extensions, and under rules to be
30 prescribed by the director.

31 The state income tax of a taxpayer making an election shall
32 be an amount of tax equal to the taxpayer's base income times
33 4.5 percent. "Base income" is defined as the taxpayer's
34 adjusted gross income before the net operating loss deduction
35 as properly computed for federal income tax purposes, less a

1 standard deduction of \$6,235 for a married person who files
2 separately or a single person or \$12,470 for a married couple
3 filing a joint return, a surviving spouse, or a head of
4 household. A taxpayer shall not be allowed any nonrefundable
5 or refundable tax credit for the tax year for which the
6 election is made, except the credits for withheld tax and
7 estimated tax paid under Code section 422.16.

8 Division II relates to miscellaneous conforming changes.

9 The division makes conforming changes to the definitions of
10 "state income tax liability" for purposes of the Iowa election
11 campaign fund income tax checkoff in Code chapter 68A, and
12 "state individual income tax" for purposes of the emergency
13 medical services income surtax in Code chapter 422D, the
14 instructional support income surtax in Code section 257.21,
15 and, by reference, the educational improvement income surtax
16 in Code section 257.29 and the physical plant and equipment
17 income surtax in Code section 298.2, to include income tax
18 computed and imposed under the alternative system in new Code
19 section 422.5A. The division also amends Code sections 422.16
20 and 422.21 to include references to new Code section 422.5A
21 in provisions of those Code sections that reference the tax
22 imposed under Code section 422.5.

23 Division III relates to implementation of the bill.

24 The division provides that the bill takes effect upon
25 enactment and applies retroactively to January 1, 2013, for tax
26 years beginning on or after that date.