

Senate File 443 - Introduced

SENATE FILE 443

BY FEENSTRA, ANDERSON, ERNST,
CHELGREN, BERTRAND,
SORENSEN, WHITVER, CHAPMAN,
HOUSER, SMITH, KAPUCIAN,
JOHNSON, BOETTGER,
SINCLAIR, BEHN, ROZENBOOM,
SCHNEIDER, ZUMBACH, DIX,
GUTH, GREINER, BREITBACH,
ZAUN, and SEGEBART

A BILL FOR

1 An Act relating to the individual income tax by providing for
2 reduced tax rates, creating an alternative individual income
3 tax imposed at the election of the taxpayer, and including
4 effective date and retroactive 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

INDIVIDUAL INCOME TAX RATE REDUCTION

Section 1. Section 422.5, subsection 1, paragraphs a through i, Code 2013, are amended to read as follows:

a. On all taxable income from zero through one thousand dollars, ~~thirty-six~~ thirty-four hundredths of one percent.

b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, ~~seventy-two~~ sixty-eight hundredths of one percent.

c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and ~~forty-three~~ thirty-one hundredths percent.

d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, four and ~~one-half~~ twenty-eight hundredths percent.

e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, ~~six and twelve~~ five and eighty-one hundredths percent.

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, six and ~~forty-eight~~ sixteen hundredths percent.

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, six and ~~eight-tenths~~ forty-six hundredths percent.

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, seven and ~~ninety-two~~ fifty-two hundredths percent.

i. On all taxable income exceeding forty-five thousand dollars, eight and ~~ninety-eight~~ fifty-three hundredths percent.

Sec. 2. EFFECTIVE UPON ENACTMENT. This division of this Act, being deemed of immediate importance, takes effect upon enactment.

Sec. 3. RETROACTIVE APPLICABILITY. This division of this Act applies retroactively to January 1, 2013, for tax years beginning on or after that date.

DIVISION II

ALTERNATIVE PERSONAL NET INCOME TAX

1
2
3 Sec. 4. Section 2.48, subsection 3, paragraph e,
4 subparagraph (2), Code 2013, is amended to read as follows:

5 (2) The claim of right tax ~~credit~~ credits under ~~section~~
6 sections 422.5 and 422.5A.

7 Sec. 5. Section 68A.102, subsection 21, Code 2013, is
8 amended to read as follows:

9 21. "*State income tax liability*" means the state individual
10 income tax imposed under section 422.5 or 422.5A, as
11 applicable, less the amounts of nonrefundable credits allowed
12 under chapter 422, division II.

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

15 The instructional support income surtax shall be imposed on
16 the state individual income tax for the calendar year during
17 which the school's budget year begins, or for a taxpayer's
18 fiscal year ending during the second half of that calendar year
19 and after the date the board adopts a resolution to participate
20 in the program or the first half of the succeeding calendar
21 year, and shall be imposed on all individuals residing in the
22 school district on the last day of the applicable tax year. As
23 used in this section, "*state individual income tax*" means the
24 taxes computed under section 422.5 or 422.5A, as applicable,
25 less the amounts of nonrefundable credits allowed under chapter
26 422, division II.

27 Sec. 7. Section 422.4, subsection 1, paragraphs b and c,
28 Code 2013, are amended to read as follows:

29 b. (1) "Cumulative With respect to section 422.5,
30 "cumulative inflation factor" means the product of the annual
31 inflation factor for the 1988 calendar year and all annual
32 inflation factors for subsequent calendar years as determined
33 pursuant to this subsection. The cumulative inflation factor
34 applies to all tax years beginning on or after January 1 of the
35 calendar year for which the latest annual inflation factor has

1 been determined.

2 (2) With respect to section 422.5, the annual inflation
3 factor for the 1988 calendar year is one hundred percent.

4 c. (1) With respect to section 422.5A, "cumulative
5 inflation factor" means the product of the annual inflation
6 factor for the 2014 calendar year and all annual inflation
7 factors for subsequent calendar years as determined pursuant to
8 this subsection. The cumulative inflation factor applies to
9 all tax years beginning on or after January 1 of the calendar
10 year for which the latest annual inflation factor has been
11 determined.

12 (2) The With respect to section 422.5A, the annual inflation
13 factor for the ~~1988~~ 2014 calendar year is one hundred percent.

14 Sec. 8. Section 422.4, subsection 2, paragraph b, Code 2013,
15 is amended to read as follows:

16 b. "Cumulative With respect to section 422.9, "cumulative
17 standard deduction factor" means the product of the annual
18 standard deduction factor for the 1989 calendar year and all
19 annual standard deduction factors for subsequent calendar years
20 as determined pursuant to this subsection. The cumulative
21 standard deduction factor applies to all tax years beginning
22 on or after January 1 of the calendar year for which the latest
23 annual standard deduction factor has been determined.

24 Sec. 9. Section 422.4, subsection 2, Code 2013, is amended
25 by adding the following new paragraph:

26 NEW PARAGRAPH. c. With respect to section 422.9A,
27 "cumulative standard deduction factor" means the product of the
28 annual standard deduction factor for the 2015 calendar year and
29 all standard deduction factors for subsequent calendar years
30 as determined pursuant to this subsection. The cumulative
31 standard deduction factor applies to all tax years beginning
32 on or after January 1 of the calendar year for which the latest
33 annual standard deduction factor has been determined.

34 Sec. 10. Section 422.4, subsection 16, Code 2013, is amended
35 to read as follows:

1 16. a. The With respect to a taxpayer computing tax under
 2 section 422.5, the words "*taxable income*" mean the net income
 3 as defined in section 422.7 minus the deductions allowed by
 4 section 422.9, in the case of individuals; in the case of
 5 estates or trusts, the words "*taxable income*" mean the taxable
 6 income (without a deduction for personal exemption) as computed
 7 for federal income tax purposes under the Internal Revenue
 8 Code, but with the adjustments specified in section 422.7 plus
 9 the Iowa income tax deducted in computing the federal taxable
 10 income and minus federal income taxes as provided in section
 11 422.9.

12 b. With respect to a taxpayer computing tax under section
 13 422.5A, the words "*taxable income*" mean the net income as
 14 defined in section 422.7 minus the deductions allowed by
 15 section 422.9A, in the case of individuals; in the case of
 16 estates or trusts, the words "*taxable income*" mean the taxable
 17 income (without a deduction for personal exemption) as computed
 18 for federal income tax purposes under the Internal Revenue
 19 Code, but with the adjustments specified in section 422.7 plus
 20 the Iowa income tax deducted in computing the federal taxable
 21 income.

22 Sec. 11. NEW SECTION. 422.4A Alternative personal net
 23 income tax — election.

24 In lieu of the personal net income tax imposed under this
 25 division in section 422.5, a taxpayer may elect to be subject
 26 to an alternative personal net income tax for tax years
 27 beginning on or after January 1, 2014. Such election must be
 28 made not later than the due date for filing the return for a
 29 taxable year, including extensions thereof, under rules to be
 30 prescribed by the director. The provisions of sections 422.5A
 31 and 422.9A apply to the alternative method to compute the
 32 personal net income tax in lieu of sections 422.5 and 422.9.
 33 An election by a married individual shall not be effective
 34 unless such election is made by both spouses.

35 Sec. 12. Section 422.5, subsection 1, unnumbered paragraph

1 1, Code 2013, is amended to read as follows:

2 A tax is imposed upon every resident and nonresident of
 3 the state not making an election under section 422.4A, which
 4 tax shall be levied, collected, and paid annually upon and
 5 with respect to the entire taxable income as defined in this
 6 division at rates as follows:

7 Sec. 13. NEW SECTION. 422.5A Tax imposed — exclusions.

8 1. A tax is imposed upon every resident and nonresident
 9 of the state making an election under section 422.4A, which
 10 tax shall be levied, collected, and paid annually upon and
 11 with respect to the entire taxable income as defined in this
 12 division at rates as follows:

13 For tax years beginning in the calendar year:

	2014	2015 and subsequent calendar years
--	------	---

18 a. On all taxable income from zero 19 through eight thousand dollars.....	1.9%	1.9%
---	------	------

20 b. On all taxable income exceeding 21 eight thousand dollars but not exceeding 22 one hundred thousand dollars.....	5.2%	4.8%
--	------	------

23 c. On all taxable income exceeding 24 one hundred thousand dollars.....	6.3%	6.0%
---	------	------

25 d. (1) The tax imposed upon the taxable income of a
 26 nonresident shall be computed by reducing the amount determined
 27 pursuant to paragraphs "a" through "c" by the amounts of
 28 nonrefundable credits under this division and by multiplying
 29 this resulting amount by a fraction of which the nonresident's
 30 net income allocated to Iowa, as determined in section
 31 422.8, subsection 2, paragraph "a", is the numerator and the
 32 nonresident's total net income computed under section 422.7 is
 33 the denominator. This provision also applies to individuals
 34 who are residents of Iowa for less than the entire tax year.

35 (2) (a) The tax imposed upon the taxable income of a

1 resident shareholder in an S corporation which has in effect
2 for the tax year an election under subchapter S of the Internal
3 Revenue Code and carries on business within and without
4 the state may be computed by reducing the amount determined
5 pursuant to paragraphs "a" through "c" by the amounts of
6 nonrefundable credits under this division and by multiplying
7 this resulting amount by a fraction of which the resident's
8 net income allocated to Iowa, as determined in section
9 422.8, subsection 2, paragraph "b", is the numerator and the
10 resident's total net income computed under section 422.7 is the
11 denominator. If a resident shareholder has elected to take
12 advantage of this subparagraph (2), and for the next tax year
13 elects not to take advantage of this subparagraph, the resident
14 shareholder shall not reelect to take advantage of this
15 subparagraph for the three tax years immediately following the
16 first tax year for which the shareholder elected not to take
17 advantage of this subparagraph, unless the director consents to
18 the reelection. This subparagraph also applies to individuals
19 who are residents of Iowa for less than the entire tax year.

20 (b) This subparagraph (2) shall not affect the amount of
21 the taxpayer's checkoffs under this division, the credits from
22 tax provided under this division, and the allocation of these
23 credits between spouses if the taxpayers filed separate returns
24 or separately on combined returns.

25 2. a. The tax shall not be imposed on a resident or
26 nonresident whose net income, as defined in section 422.7, is
27 fifteen thousand dollars or less in the case of married persons
28 filing jointly or filing separately on a combined return, heads
29 of household, and surviving spouses or eleven thousand dollars
30 or less in the case of all other persons; but in the event that
31 the payment of tax under this division would reduce the net
32 income to less than fifteen thousand dollars or eleven thousand
33 dollars as applicable, then the tax shall be reduced to that
34 amount which would result in allowing the taxpayer to retain
35 a net income of fifteen thousand dollars or eleven thousand

1 dollars as applicable. The preceding sentence does not apply
2 to estates or trusts. For the purpose of this subsection, the
3 entire net income, including any part of the net income not
4 allocated to Iowa, shall be taken into account. For purposes
5 of this subsection, net income includes all amounts of pensions
6 or other retirement income received from any source which is
7 not taxable under this division as a result of the government
8 pension exclusions in section 422.7, or any other state law.
9 If the combined net income of a married couple exceeds fifteen
10 thousand dollars, neither of them shall receive the benefit
11 of this subsection, and it is immaterial whether they file a
12 joint return or separate returns. However, if a married couple
13 file separate returns and have a combined net income of fifteen
14 thousand dollars or less, neither spouse shall receive the
15 benefit of this paragraph if one spouse has a net operating
16 loss and elects to carry back or carry forward the loss as
17 provided in section 422.9A, subsection 2. A person who is
18 claimed as a dependent by another person as defined in section
19 422.12 shall not receive the benefit of this subsection if the
20 person claiming the dependent has net income exceeding fifteen
21 thousand dollars or eleven thousand dollars as applicable or
22 the person claiming the dependent and the person's spouse have
23 combined net income exceeding fifteen thousand dollars or
24 eleven thousand dollars as applicable.

25 *b.* In lieu of the computation in subsection 1, or in
26 paragraph "a" of this subsection, if the married persons',
27 filing jointly or filing separately on a combined return,
28 head of household's, or surviving spouse's net income exceeds
29 fifteen thousand dollars, the regular tax imposed under this
30 division shall be the lesser of the maximum state individual
31 income tax rate times the portion of the net income in excess
32 of fifteen thousand dollars or the regular tax liability
33 computed without regard to this sentence. Taxpayers electing
34 to file separately shall compute the alternate tax described
35 in this paragraph using the total net income of both spouses.

1 The alternate tax described in this paragraph "b" does not apply
2 if one spouse elects to carry back or carry forward the loss as
3 provided in section 422.9A, subsection 2.

4 3. a. The tax shall not be imposed on a resident or
5 nonresident who is at least sixty-five years old on December
6 31 of the tax year and whose net income, as defined in section
7 422.7, is thirty-two thousand dollars or less in the case
8 of married persons filing jointly or filing separately on a
9 combined return, heads of household, and surviving spouses or
10 twenty-four thousand dollars or less in the case of all other
11 persons; but in the event that the payment of tax under this
12 division would reduce the net income to less than thirty-two
13 thousand dollars or twenty-four thousand dollars as applicable,
14 then the tax shall be reduced to that amount which would result
15 in allowing the taxpayer to retain a net income of thirty-two
16 thousand dollars or twenty-four thousand dollars as applicable.
17 The preceding sentence does not apply to estates or trusts.
18 For the purpose of this subsection, the entire net income,
19 including any part of the net income not allocated to Iowa,
20 shall be taken into account. For purposes of this subsection,
21 net income includes all amounts of pensions or other retirement
22 income received from any source which is not taxable under this
23 division as a result of the government pension exclusions in
24 section 422.7, or any other state law. If the combined net
25 income of a married couple exceeds thirty-two thousand dollars,
26 neither of them shall receive the benefit of this subsection,
27 and it is immaterial whether they file a joint return or
28 separate returns. However, if a married couple file separate
29 returns and have a combined net income of thirty-two thousand
30 dollars or less, neither spouse shall receive the benefit of
31 this paragraph, if one spouse has a net operating loss and
32 elects to carry back or carry forward the loss as provided
33 in section 422.9A, subsection 2. A person who is claimed as
34 a dependent by another person as defined in section 422.12
35 shall not receive the benefit of this subsection if the person

1 claiming the dependent has net income exceeding thirty-two
2 thousand dollars or twenty-four thousand dollars as applicable
3 or the person claiming the dependent and the person's spouse
4 have combined net income exceeding thirty-two thousand dollars
5 or twenty-four thousand dollars as applicable.

6 *b.* In lieu of the computation in subsection 1 or subsection
7 2, paragraph "a" or "b", if the married persons', filing jointly
8 or filing separately on a combined return, head of household's,
9 or surviving spouse's net income exceeds thirty-two thousand
10 dollars, the regular tax imposed under this division shall be
11 the lesser of the maximum state individual income tax rate
12 times the portion of the net income in excess of thirty-two
13 thousand dollars or the regular tax liability computed without
14 regard to this sentence. Taxpayers electing to file separately
15 shall compute the alternate tax described in this paragraph
16 "b" using the total net income of the married couple. The
17 alternate tax described in this paragraph does not apply if
18 one spouse elects to carry back or carry forward the loss as
19 provided in section 422.9A, subsection 2.

20 *c.* This subsection applies even though one spouse has not
21 attained the age of sixty-five, if the other spouse is at least
22 sixty-five at the end of the tax year.

23 4. The tax herein levied shall be computed and collected as
24 hereinafter provided.

25 5. The provisions of this division shall apply to all
26 salaries received by federal officials or employees of the
27 United States government as provided for herein.

28 6. Upon determination of the latest cumulative inflation
29 factor, the director shall multiply each dollar amount set
30 forth in subsection 1, paragraphs "a" through "c", by this
31 cumulative inflation factor, shall round off the resulting
32 product to the nearest one dollar, and shall incorporate the
33 result into the income tax forms and instructions for each tax
34 year.

35 7. The state income tax of a taxpayer whose net income

1 includes the gain or loss from the forfeiture of an installment
2 real estate contract, the transfer of real or personal
3 property securing a debt to a creditor in cancellation of that
4 debt, or from the sale or exchange of property as a result
5 of actual notice of foreclosure where the fair market value
6 of the taxpayer's assets exceeds the taxpayer's liabilities
7 immediately before such forfeiture, transfer, or sale or
8 exchange shall not be greater than such excess, including any
9 asset transferred within one hundred twenty days prior to such
10 forfeiture, transfer, or sale or exchange. For purposes of
11 this subsection, in the case of married taxpayers, except in
12 the case of spouses who live apart at all times during the
13 tax year, the assets and liabilities of both spouses shall
14 be considered in determining if the fair market value of the
15 taxpayer's assets exceed the taxpayer's liabilities.

16 8. In addition to the other taxes imposed by this section,
17 a tax is imposed on the amount of a lump sum distribution
18 for which the taxpayer has elected under section 402(e) of
19 the Internal Revenue Code to be separately taxed for federal
20 income tax purposes for the tax year. The rate of tax is equal
21 to twenty-five percent of the separate federal tax imposed
22 on the amount of the lump sum distribution. A nonresident
23 is liable for this tax only on that portion of the lump sum
24 distribution allocable to Iowa. The total amount of the lump
25 sum distribution subject to separate federal tax shall be
26 included in net income for purposes of determining eligibility
27 under subsections 2 and 3, as applicable.

28 9. In the case of income derived from the sale or exchange
29 of livestock which qualifies under section 451(e) of the
30 Internal Revenue Code because of drought, the taxpayer may
31 elect to include the income in the taxpayer's net income in
32 the tax year following the year of the sale or exchange in
33 accordance with rules prescribed by the director.

34 10. If an individual's federal income tax was forgiven for
35 a tax year under section 692 of the Internal Revenue Code,

1 because the individual was killed while serving in an area
2 designated by the president of the United States or the United
3 States Congress as a combat zone, the individual was missing in
4 action and presumed dead, or the individual was killed outside
5 the United States in a terroristic or military action while the
6 individual was a military or civilian employee of the United
7 States, the individual's Iowa income tax is also forgiven for
8 the same tax year.

9 11. If a taxpayer repays in the current tax year certain
10 amounts of income that were subject to tax under this division
11 in a prior year and a tax benefit would be allowed under
12 similar circumstances under section 1341 of the Internal
13 Revenue Code, a tax benefit shall be allowed on the Iowa
14 return. The tax benefit shall be the reduced tax for the
15 current tax year due to the deduction for the repaid income
16 or the reduction in tax for the prior year or years due to
17 exclusion of the repaid income. The reduction in tax shall
18 qualify as a refundable tax credit on the return for the
19 current year pursuant to rules prescribed by the director.

20 Sec. 14. Section 422.6, unnumbered paragraph 1, Code 2013,
21 is amended to read as follows:

22 The tax imposed by section 422.5 or 422.5A, as applicable,
23 less the amounts of nonrefundable credits allowed under this
24 division apply to and are a charge against estates and trusts
25 with respect to their taxable income, and the rates are the
26 same as those applicable to individuals. The fiduciary shall
27 make the return of income for the estate or trust for which
28 the fiduciary acts, whether the income is taxable to the
29 estate or trust or to the beneficiaries. However, for tax
30 years ending after August 5, 1997, if the trust is a qualified
31 preneed funeral trust as set forth in section 685 of the
32 Internal Revenue Code and the trustee has elected the special
33 tax treatment under section 685 of the Internal Revenue Code,
34 neither the trust nor the beneficiary is subject to Iowa income
35 tax on income accruing to the trust.

1 Sec. 15. Section 422.7, subsection 21, unnumbered paragraph
2 2, Code 2013, is amended to read as follows:

3 However, to the extent otherwise allowed, the deduction
4 provided in this subsection is not allowed for purposes
5 of computation of a net operating loss in section 422.9,
6 subsection 3, or section 422.9A, subsection 2, and in computing
7 the income for the taxable year or years for which a net
8 operating loss is deducted.

9 Sec. 16. Section 422.8, subsection 2, paragraph a, Code
10 2013, is amended to read as follows:

11 a. Nonresident's net income allocated to Iowa is the net
12 income, or portion of net income, which is derived from a
13 business, trade, profession, or occupation carried on within
14 this state or income from any property, trust, estate, or
15 other source within Iowa. However, income derived from a
16 business, trade, profession, or occupation carried on within
17 this state and income from any property, trust, estate, or
18 other source within Iowa shall not include distributions from
19 pensions, including defined benefit or defined contribution
20 plans, annuities, individual retirement accounts, and deferred
21 compensation plans or any earnings attributable thereto so long
22 as the distribution is directly related to an individual's
23 documented retirement and received while the individual is a
24 nonresident of this state. If a business, trade, profession,
25 or occupation is carried on partly within and partly without
26 the state, only the portion of the net income which is fairly
27 and equitably attributable to that part of the business, trade,
28 profession, or occupation carried on within the state is
29 allocated to Iowa for purposes of section 422.5, subsection 1,
30 paragraph "j", or section 422.5A, subsection 1, paragraph "d",
31 as applicable, and section 422.13 and income from any property,
32 trust, estate, or other source partly within and partly without
33 the state is allocated to Iowa in the same manner, except that
34 annuities, interest on bank deposits and interest-bearing
35 obligations, and dividends are allocated to Iowa only to the

1 extent to which they are derived from a business, trade,
2 profession, or occupation carried on within the state.

3 Sec. 17. Section 422.8, subsection 4, Code 2013, is amended
4 to read as follows:

5 4. The amount of minimum tax paid to another state or
6 foreign country by a resident taxpayer of this state from
7 preference items derived from sources outside of Iowa shall
8 be allowed as a credit against the tax computed under this
9 division for taxpayers not electing the alternative method
10 under section 422.4A, except that the credit shall not exceed
11 what the amount of state alternative minimum tax would have
12 been on the same preference items which were taxed by the
13 other state or foreign country. The limitation on this credit
14 shall be computed according to the following formula: The
15 total of preference items earned outside of Iowa and taxed
16 by another state or foreign country shall be divided by the
17 total of preference items of the resident taxpayer of Iowa. In
18 computing this quotient, those items excludable under section
19 422.5, subsection 2, paragraph "b", subparagraph (1), shall
20 not be used in computing the preference items. This quotient
21 multiplied times the net state alternative minimum tax as
22 determined in section 422.5, subsection 2, on the total of
23 preference items as if entirely earned in Iowa shall be the
24 maximum tax credit against the Iowa alternative minimum tax.
25 However, the maximum tax credit will not be allowed to the
26 extent that the minimum tax imposed by the other state or
27 foreign country is less than the maximum tax credit computed
28 above.

29 Sec. 18. NEW SECTION. **422.9A Deductions from net income.**

30 1. In computing taxable income of individuals, there shall
31 be deducted from net income the sum of the following:

32 a. A basic standard deduction equal to three thousand
33 dollars for a married individual who files separately or a
34 single individual or equal to six thousand dollars for a
35 married couple who file a joint return, a surviving spouse, or

1 a head of household.

2 *b.* An additional standard deduction equal to two thousand
3 dollars for each dependent. For purposes of this subsection,
4 "*dependent*" has the same meaning as provided by the Internal
5 Revenue Code.

6 *c.* An additional standard deduction equal to one thousand
7 dollars for an individual who has attained the age of
8 sixty-five years before the close of the tax year or on the
9 first day following the end of the tax year.

10 *d.* An additional standard deduction equal to one thousand
11 dollars for an individual who is blind, as that term is
12 described in section 422.12, subsection 2, at the close of the
13 tax year.

14 2. If, after applying all of the adjustments provided
15 for in section 422.7, the allocation provisions of section
16 422.8, and the deductions allowable in this section subject to
17 the modifications provided in section 172(d) of the Internal
18 Revenue Code, the taxable income results in a net operating
19 loss, the net operating loss shall be deducted as follows:

20 *a.* The Iowa net operating loss shall be carried back three
21 taxable years for an individual taxpayer with a casualty
22 or theft property loss or for a net operating loss in a
23 presidentially declared disaster area incurred by a taxpayer
24 engaged in a small business or in the trade or business of
25 farming. For all other Iowa net operating losses, the net
26 operating loss shall be carried back two taxable years or to
27 the taxable year in which the taxpayer first earned income in
28 Iowa, whichever year is the later.

29 *b.* The Iowa net operating loss remaining after being carried
30 back as required in paragraph "*a*" or "*d*" or if not required to
31 be carried back shall be carried forward twenty taxable years.

32 *c.* If the election under section 172(b)(3) of the Internal
33 Revenue Code is made, the Iowa net operating loss shall be
34 carried forward twenty taxable years.

35 *d.* Notwithstanding paragraph "*a*", for a taxpayer who is

1 engaged in the trade or business of farming as defined in
2 section 263A(e)(4) of the Internal Revenue Code and has a loss
3 from farming as defined in section 172(b)(1)(F) of the Internal
4 Revenue Code including modifications prescribed by rule by the
5 director, the Iowa loss from the trade or business of farming
6 is a net operating loss which may be carried back five taxable
7 years prior to the taxable year of the loss.

8 Sec. 19. Section 422.10, subsection 4, Code 2013, is amended
9 to read as follows:

10 4. Any credit in excess of the tax liability imposed by
11 section 422.5 or 422.5A, as applicable, less the amounts of
12 nonrefundable credits allowed under this division for the
13 taxable year shall be refunded with interest computed under
14 section 422.25. In lieu of claiming a refund, a taxpayer
15 may elect to have the overpayment shown on the taxpayer's
16 final, completed return credited to the tax liability for the
17 following taxable year.

18 Sec. 20. Section 422.12, subsection 2, paragraph a, Code
19 2013, is amended to read as follows:

20 a. (1) A For a taxpayer computing tax under section 422.5,
21 a personal exemption credit in the following amounts:

22 ~~(1)~~ (a) For an estate or trust, a single individual, or a
23 married person filing a separate return, forty dollars.

24 ~~(2)~~ (b) For a head of household, or a ~~husband and wife~~
25 married couple filing a joint return, eighty dollars.

26 ~~(3)~~ (c) For each dependent, an additional forty dollars.

27 ~~(4)~~ (d) For a single individual, ~~husband, wife~~ married
28 couple, or head of household, an additional exemption of twenty
29 dollars for each of said individuals who has attained the age
30 of sixty-five years before the close of the tax year or on the
31 first day following the end of the tax year.

32 ~~(5)~~ (e) For a single individual, ~~husband, wife~~ married
33 couple, or head of household, an additional exemption of twenty
34 dollars for each of said individuals who is blind at the
35 close of the tax year. For the purposes of this subparagraph

1 division, an individual is blind only if the individual's
2 central visual acuity does not exceed twenty-two hundredths in
3 the better eye with correcting lenses, or if the individual's
4 visual acuity is greater than twenty-two hundredths but is
5 accompanied by a limitation in the fields of vision such that
6 the widest diameter of the visual field subtends an angle no
7 greater than twenty degrees.

8 (2) For a taxpayer computing tax under section 422.5A, a
9 personal exemption credit in the following amounts:

10 (a) For an estate or trust, a single individual, or a
11 married person filing a separate return, sixty dollars.

12 (b) For a head of household, or a married couple filing a
13 joint return, one hundred twenty dollars.

14 (c) For each dependent, an additional sixty dollars.

15 Sec. 21. Section 422.13, subsection 2, Code 2013, is amended
16 to read as follows:

17 2. Notwithstanding any other provision in this section,
18 a resident of this state is not required to make and file a
19 return if the person's net income is equal to or less than the
20 appropriate dollar amount listed in section 422.5, subsection
21 3 or 3B, or section 422.5A, subsection 2 or 3, as applicable,
22 upon which tax is not imposed. A nonresident of this state
23 is not required to make and file a return if the person's
24 total net income in section 422.5, subsection 1, paragraph
25 "j", is equal to or less than the appropriate dollar amount
26 provided in section 422.5, subsection 3 or 3B, upon which
27 tax is not imposed, or if the person's total net income in
28 section 422.5A, subsection 1, paragraph "d", is equal to or
29 less than the appropriate dollar amount provided in section
30 422.5A, subsection 2 or 3, upon which tax is not imposed, as
31 applicable. For purposes of this subsection, the amount of a
32 lump sum distribution subject to separate federal tax shall
33 be included in net income for purposes of determining if a
34 resident is required to file a return and the portion of the
35 lump sum distribution that is allocable to Iowa is included in

1 total net income for purposes of determining if a nonresident
2 is required to make and file a return.

3 Sec. 22. Section 422.16, subsection 8, Code 2013, is amended
4 to read as follows:

5 8. An employer or withholding agent shall be liable for
6 the payment of the tax required to be deducted and withheld
7 or the amount actually deducted, whichever is greater, under
8 subsections 1 and 12 of this section; and any amount deducted
9 and withheld as tax under subsections 1 and 12 of this section
10 during any calendar year upon the wages of any employee,
11 nonresident, or other person shall be allowed as a credit to
12 the employee, nonresident, or other person against the tax
13 imposed by section 422.5 or 422.5A, as applicable, irrespective
14 of whether or not such tax has been, or will be, paid over by
15 the employer or withholding agent to the department as provided
16 by this chapter.

17 Sec. 23. Section 422.21, subsections 1 and 5, Code 2013, are
18 amended to read as follows:

19 1. Returns shall be in the form the director prescribes,
20 and shall be filed with the department on or before the last
21 day of the fourth month after the expiration of the tax year.
22 However, cooperative associations as defined in section 6072(d)
23 of the Internal Revenue Code shall file their returns on or
24 before the fifteenth day of the ninth month following the
25 close of the taxable year and nonprofit corporations subject
26 to the unrelated business income tax imposed by section
27 422.33, subsection 1A, shall file their returns on or before
28 the fifteenth day of the fifth month following the close of
29 the taxable year. If, under the Internal Revenue Code, a
30 corporation is required to file a return covering a tax period
31 of less than twelve months, the state return shall be for the
32 same period and is due forty-five days after the due date of
33 the federal tax return, excluding any extension of time to
34 file. In case of sickness, absence, or other disability, or
35 if good cause exists, the director may allow further time for

1 filing returns. The director shall cause to be prepared blank
 2 forms for the returns and shall cause them to be distributed
 3 throughout the state and to be furnished upon application,
 4 but failure to receive or secure the form does not relieve
 5 the taxpayer from the obligation of making a return that is
 6 required. The department may as far as consistent with the
 7 Code draft income tax forms to conform to the income tax
 8 forms of the internal revenue department of the United States
 9 government. Each return by a taxpayer upon whom a tax is
 10 imposed by section 422.5 or 422.5A shall show the county of the
 11 residence of the taxpayer.

12 5. The director shall determine for the 1989 and each
 13 subsequent calendar year the annual and cumulative inflation
 14 factors for each calendar year to be applied to tax years
 15 beginning on or after January 1 of that calendar year. The
 16 director shall compute the new dollar amounts as specified
 17 to be adjusted in section 422.5 and 422.5A by the latest
 18 cumulative inflation factor and round off the result to the
 19 nearest one dollar. The annual and cumulative inflation
 20 factors determined by the director are not rules as defined in
 21 section 17A.2, subsection 11. The director shall determine for
 22 the 1990 calendar year and each subsequent calendar year the
 23 annual and cumulative standard deduction factors to be applied
 24 to tax years beginning on or after January 1 of that calendar
 25 year. The director shall compute the new dollar amounts of
 26 the standard deductions specified in section 422.9, subsection
 27 1, and 422.9A, subsection 1, by the latest cumulative standard
 28 deduction factor and round off the result to the nearest ten
 29 dollars. The annual and cumulative standard deduction factors
 30 determined by the director are not rules as defined in section
 31 17A.2, subsection 11.

32 Sec. 24. Section 422D.2, Code 2013, is amended to read as
 33 follows:

34 **422D.2 Local income surtax.**

35 A county may impose by ordinance a local income surtax as

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

14 Sec. 25. EFFECTIVE DATE. This division of this Act takes
15 effect January 1, 2014.

16 Sec. 26. APPLICABILITY. This division of this Act applies
17 to tax years beginning on or after January 1, 2014.

18 DIVISION III

19 INCOME TAX STUDY COMMITTEE

20 Sec. 27. INCOME TAX STUDY COMMITTEE.

21 1. The legislative council is requested to establish an
22 income tax study committee to study and receive testimony
23 and recommendations relating to the changes to the
24 individual income tax enacted in this Act, and shall submit
25 recommendations to the general assembly in the form of a report
26 by November 29, 2013, and November 28, 2014.

27 2. The study committee shall be composed of six members
28 of the senate and the house of representatives, and a certain
29 number of other public and private members, as determined by
30 the legislative council, who shall serve in an ex officio,
31 nonvoting capacity.

32 3. The study committee shall commence meeting as soon as
33 practicable during the 2013 and 2014 legislative interims.

34 EXPLANATION

35 This bill relates to the individual income tax by reducing

1 income tax rates and by creating an alternative personal net
2 income tax imposed at the election of the taxpayer.

3 DIVISION I — INDIVIDUAL INCOME TAX RATE REDUCTION. The
4 division reduces by approximately 5 percent the tax rate for
5 each of the nine tax brackets of the individual income tax.
6 The current individual income tax rates range from a low of
7 0.36 percent to a high of 8.98 percent. The bill changes these
8 rates to a low of 0.34 percent and a high of 8.53 percent. The
9 division takes effect upon enactment and applies retroactively
10 to January 1, 2013, for tax years beginning on or after that
11 date.

12 DIVISION II — ALTERNATIVE PERSONAL NET INCOME TAX. The
13 division creates an alternative personal net income tax imposed
14 at the election of the taxpayer. In lieu of the regular
15 personal net income tax imposed under Code section 422.5, a
16 taxpayer may elect to be subject to an alternative personal net
17 income tax as provided in new Code sections 422.4A, 422.5A,
18 and 422.9A, beginning with the 2014 tax year. An election
19 must be made not later than the due date for filing the return
20 for the taxable year, including extensions, under rules to be
21 prescribed by the director. For married taxpayers, an election
22 must be made by both spouses to be effective.

23 The alternative personal net income tax is computed using
24 three tax brackets. The first bracket includes taxable income
25 from zero to \$8,000. The second bracket includes taxable
26 income from \$8,001 to \$100,000. The third bracket includes all
27 taxable income exceeding \$100,000. The dollar amounts in each
28 of these three brackets are indexed for inflation. For tax
29 years beginning in 2014, the tax rates for each bracket are 1.9
30 percent, 5.2 percent, and 6.3 percent, respectively. For tax
31 years beginning in 2015, and for each year thereafter, the tax
32 rates for each bracket are 1.9 percent, 4.8 percent, and 6.0
33 percent, respectively.

34 Taxpayers electing the alternative personal net income tax
35 are not allowed a deduction for federal income tax paid or for

1 other itemized deductions in computing taxable income but do
2 retain the ability to deduct net operating loss. Electing
3 taxpayers are allowed a basic standard deduction equal to
4 \$3,000 for a single individual, or a married individual who
5 files a separate tax return, or equal to \$6,000 for a married
6 couple filing a joint return, a surviving spouse, or a head of
7 household. Electing taxpayers are also allowed an additional
8 standard deduction equal to \$2,000 for each dependent, \$1,000
9 if the taxpayer is age 65 or older, and \$1,000 if the taxpayer
10 is blind. These standard deduction amounts are indexed for
11 inflation.

12 In comparison to the regular personal net income tax, the
13 alternative personal net income tax increases the personal
14 exemption credit from \$40 to \$60 for an estate or trust, a
15 single person, and a married person filing a separate return,
16 from \$80 to \$120 for a head of household or a married couple
17 filing a joint return, and from \$40 to \$60 for each additional
18 dependent. The \$20 personal exemption credit available under
19 the regular personal net income tax for a taxpayer who is 65
20 or older, or blind, is not available under the alternative
21 personal net income tax.

22 Also in comparison to the regular personal net income tax,
23 the alternative personal net income tax increases the filing
24 threshold from \$13,500 to \$15,000 for married taxpayers filing
25 jointly or separately on a combined return, heads of household,
26 and surviving spouses, and from \$9,000 to \$11,000 for all other
27 persons. The filing threshold for taxpayers who are 65 years
28 of age or older remains unchanged at \$32,000 and \$24,000,
29 respectively.

30 The division eliminates the alternative minimum tax and
31 the related minimum tax credit for taxpayers electing the
32 alternative personal net income tax.

33 The division makes several conforming changes to the
34 personal net income tax in division II of Code chapter 422, and
35 to the definitions of "state income tax liability" for purposes

1 of the Iowa election campaign fund income tax checkoff in Code
2 chapter 68A, and "state individual income tax" for purposes of
3 the emergency medical services income surtax in Code chapter
4 422D, the instructional support income surtax in Code section
5 257.21, and, by reference, the educational improvement income
6 surtax in Code section 257.29 and the physical plant and
7 equipment income surtax in Code section 298.2, to include
8 references to the alternative personal net income tax where
9 appropriate.

10 The division takes effect on January 1, 2014, and applies to
11 tax years beginning on or after that date.

12 DIVISION III — INCOME TAX STUDY COMMITTEE. The division
13 creates a legislative study committee to study and receive
14 testimony and recommendations relating to the individual income
15 tax changes enacted in the bill. The study committee shall be
16 composed of members of the senate and house of representatives,
17 and a certain number of other public and private members, as
18 determined by the legislative council, who shall serve in an
19 ex officio, nonvoting capacity. The committee shall commence
20 meeting as soon as practicable during the 2013 and 2014
21 legislative interims and shall submit recommendations in the
22 form of a report to the general assembly by November 29, 2013,
23 and November 28, 2014.