

House File 611 - Introduced

HOUSE FILE 611

BY JACOBY

A BILL FOR

1 An Act relating to the individual income tax by modifying the
2 income tax brackets and tax rates, and including retroactive
3 applicability provisions.

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

1 Section 1. Section 422.4, subsection 1, Code 2015, is
2 amended to read as follows:

3 1. *a.* "*Annual inflation factor*" means an index, expressed
4 as a percentage, determined by the department by October 15 of
5 the calendar year preceding the calendar year for which the
6 factor is determined, which reflects the purchasing power of
7 the dollar as a result of inflation during the fiscal year
8 ending in the calendar year preceding the calendar year for
9 which the factor is determined. In determining the annual
10 inflation factor, the department shall use the annual percent
11 change, but not less than zero percent, in the gross domestic
12 product price deflator computed for the second quarter of the
13 calendar year by the bureau of economic analysis of the United
14 States department of commerce and shall add all of that percent
15 change to one hundred percent. The annual inflation factor and
16 the cumulative inflation factor shall each be expressed as a
17 percentage rounded to the nearest one-tenth of one percent.
18 The annual inflation factor shall not be less than one hundred
19 percent.

20 *b.* "*Cumulative inflation factor*" means the product of the
21 annual inflation factor for the ~~1988~~ 2015 calendar year and
22 all annual inflation factors for subsequent calendar years
23 as determined pursuant to this subsection. The cumulative
24 inflation factor applies to all tax years beginning on or after
25 January 1 of the calendar year for which the latest annual
26 inflation factor has been determined.

27 *c.* The annual inflation factor for the ~~1988~~ 2015 calendar
28 year is one hundred percent.

29 Sec. 2. Section 422.5, subsection 1, Code 2015, is amended
30 to read as follows:

31 1. A tax is imposed upon every resident and nonresident
32 of the state which tax shall be levied, collected, and paid
33 annually upon and with respect to the entire taxable income as
34 defined in this division at rates as follows:

35 *a.* On all taxable income from zero through one thousand five

1 hundred thirty-nine dollars, ~~thirty-six~~ thirty-five hundredths
2 of one percent.

3 *b.* On all taxable income exceeding one thousand five hundred
4 thirty-nine dollars but not exceeding ~~two~~ three thousand
5 seventy-eight dollars, ~~seventy-two hundredths~~ seven-tenths of
6 one percent.

7 *c.* On all taxable income exceeding ~~two~~ three thousand
8 seventy-eight dollars but not exceeding ~~four~~ six thousand one
9 hundred fifty-six dollars, two and ~~forty-three~~ thirty-six
10 hundredths percent.

11 *d.* On all taxable income exceeding ~~four~~ six thousand one
12 hundred fifty-six dollars but not exceeding ~~nine~~ thirteen
13 thousand eight hundred fifty-one dollars, four and ~~one-half~~
14 thirty-seven hundredths percent.

15 *e.* On all taxable income exceeding ~~nine~~ thirteen thousand
16 eight hundred fifty-one dollars but not exceeding ~~fifteen~~
17 twenty-three thousand eighty-five dollars, ~~six~~ five and ~~twelve~~
18 ninety-four hundredths percent.

19 *f.* On all taxable income exceeding ~~fifteen~~ twenty-three
20 thousand eighty-five dollars but not exceeding ~~twenty~~ thirty
21 thousand seven hundred eighty dollars, six and ~~forty-eight~~
22 twenty-nine hundredths percent.

23 *g.* On all taxable income exceeding ~~twenty~~ thirty thousand
24 seven hundred eighty dollars but not exceeding ~~thirty~~ forty-six
25 thousand one hundred seventy dollars, six and ~~eight-tenths~~
26 six-tenths percent.

27 *h.* On all taxable income exceeding ~~thirty~~ forty-six thousand
28 one hundred seventy dollars but not exceeding ~~forty-five~~
29 sixty-nine thousand two hundred fifty-five dollars, seven and
30 ~~ninety-two~~ sixty-eight hundredths percent.

31 *i.* On all taxable income exceeding ~~forty-five~~ sixty-nine
32 thousand two hundred fifty-five dollars but not exceeding ~~one~~
33 hundred thousand dollars, eight and ~~ninety-eight~~ seventy-one
34 hundredths percent.

35 *j.* On all taxable income exceeding one hundred thousand

1 dollars but not exceeding two hundred fifty thousand dollars,
2 eight and eight-tenths percent.

3 k. On all taxable income exceeding two hundred fifty
4 thousand dollars, eight and eighty-nine hundredths percent.

5 ~~j.~~ l. (1) The tax imposed upon the taxable income of a
6 nonresident shall be computed by reducing the amount determined
7 pursuant to paragraphs "a" through "~~i~~" "k" by the amounts of
8 nonrefundable credits under this division and by multiplying
9 this resulting amount by a fraction of which the nonresident's
10 net income allocated to Iowa, as determined in section
11 422.8, subsection 2, paragraph "a", is the numerator and the
12 nonresident's total net income computed under section 422.7 is
13 the denominator. This provision also applies to individuals
14 who are residents of Iowa for less than the entire tax year.

15 (2) (a) The tax imposed upon the taxable income of a
16 resident shareholder in an S corporation or of an estate
17 or trust with a situs in Iowa that is a shareholder in an S
18 corporation, which S corporation has in effect for the tax
19 year an election under subchapter S of the Internal Revenue
20 Code and carries on business within and without the state,
21 may be computed by reducing the amount determined pursuant to
22 paragraphs "a" through "~~i~~" "k" by the amounts of nonrefundable
23 credits under this division and by multiplying this resulting
24 amount by a fraction of which the resident's or estate's
25 or trust's net income allocated to Iowa, as determined in
26 section 422.8, subsection 2, paragraph "b", is the numerator
27 and the resident's or estate's or trust's total net income
28 computed under section 422.7 is the denominator. If a resident
29 shareholder, or an estate or trust with a situs in Iowa
30 that is a shareholder, has elected to take advantage of this
31 subparagraph (2), and for the next tax year elects not to take
32 advantage of this subparagraph, the resident or estate or
33 trust shareholder shall not reelect to take advantage of this
34 subparagraph for the three tax years immediately following the
35 first tax year for which the shareholder elected not to take

1 advantage of this subparagraph, unless the director consents to
2 the reelection. This subparagraph also applies to individuals
3 who are residents of Iowa for less than the entire tax year.

4 (b) This subparagraph (2) shall not affect the amount of
5 the taxpayer's checkoffs under this division, the credits from
6 tax provided under this division, and the allocation of these
7 credits between spouses if the taxpayers filed separate returns
8 or separately on combined returns.

9 Sec. 3. Section 422.5, subsection 2, paragraph a, Code 2015,
10 is amended to read as follows:

11 a. There is imposed upon every resident and nonresident
12 of this state, including estates and trusts, the greater of
13 the tax determined in subsection 1, paragraphs "a" through "j"
14 "l", or the state alternative minimum tax equal to seventy-five
15 percent of the maximum state individual income tax rate for the
16 tax year, rounded to the nearest one-tenth of one percent, of
17 the state alternative minimum taxable income of the taxpayer as
18 computed under this subsection.

19 Sec. 4. Section 422.5, subsection 6, Code 2015, is amended
20 to read as follows:

21 6. Upon determination of the latest cumulative inflation
22 factor, the director shall multiply each dollar amount set
23 forth in subsection 1, paragraphs "a" through "i" "k" by this
24 cumulative inflation factor, shall round off the resulting
25 product to the nearest one dollar, and shall incorporate the
26 result into the income tax forms and instructions for each tax
27 year.

28 Sec. 5. Section 422.8, subsection 2, paragraph a, Code 2015,
29 is amended to read as follows:

30 a. Nonresident's net income allocated to Iowa is the net
31 income, or portion of net income, which is derived from a
32 business, trade, profession, or occupation carried on within
33 this state or income from any property, trust, estate, or
34 other source within Iowa. However, income derived from a
35 business, trade, profession, or occupation carried on within

1 this state and income from any property, trust, estate, or
2 other source within Iowa shall not include distributions from
3 pensions, including defined benefit or defined contribution
4 plans, annuities, individual retirement accounts, and deferred
5 compensation plans or any earnings attributable thereto so long
6 as the distribution is directly related to an individual's
7 documented retirement and received while the individual is a
8 nonresident of this state. If a business, trade, profession,
9 or occupation is carried on partly within and partly without
10 the state, only the portion of the net income which is fairly
11 and equitably attributable to that part of the business,
12 trade, profession, or occupation carried on within the state
13 is allocated to Iowa for purposes of section 422.5, subsection
14 1, paragraph ~~"j"~~ "1", and section 422.13 and income from any
15 property, trust, estate, or other source partly within and
16 partly without the state is allocated to Iowa in the same
17 manner, except that annuities, interest on bank deposits and
18 interest-bearing obligations, and dividends are allocated
19 to Iowa only to the extent to which they are derived from a
20 business, trade, profession, or occupation carried on within
21 the state.

22 Sec. 6. Section 422.11B, Code 2015, is amended to read as
23 follows:

24 **422.11B Minimum tax credit.**

25 1. a. There is allowed as a credit against the tax
26 determined in section 422.5, subsection 1, paragraphs "a"
27 through ~~"j"~~ "1" for a tax year an amount equal to the minimum
28 tax credit for that tax year.

29 b. The minimum tax credit for a tax year is the excess,
30 if any, of the net minimum tax imposed for all prior tax
31 years beginning on or after January 1, 1987, over the amount
32 allowable as a credit under this section for those prior tax
33 years.

34 2. a. The allowable credit under subsection 1 for a tax
35 year shall not exceed the excess, if any, of the tax determined

1 in section 422.5, subsection 1, paragraphs "a" through "j" "l"
2 over the state alternative minimum tax as determined in section
3 422.5, subsection 2.

4 b. The net minimum tax for a tax year is the excess, if any,
5 of the tax determined in section 422.5, subsection 2, for the
6 tax year over the tax determined in section 422.5, subsection
7 1, paragraphs "a" through "j" "l" for the tax year.

8 Sec. 7. Section 425.23, subsection 4, paragraph b, Code
9 2015, is amended to read as follows:

10 b. The annual adjustment factor for the 1998 base year
11 is one hundred percent. For each subsequent base year, the
12 annual adjustment factor equals the annual inflation factor for
13 the calendar year, in which the base year begins, as computed
14 in section 422.4 for purposes of the individual income tax,
15 without regard to subsection 1, paragraph "c", of that section.

16 Sec. 8. RETROACTIVE APPLICABILITY. This Act applies
17 retroactively to January 1, 2015, for tax years beginning on
18 or after that date.

19 EXPLANATION

20 The inclusion of this explanation does not constitute agreement with
21 the explanation's substance by the members of the general assembly.

22 This bill amends the individual income tax brackets and tax
23 rates. Under current law for tax year 2015, the individual
24 income tax is computed using nine progressive tax brackets
25 and tax rates ranging from a low of 0.36 percent on the first
26 \$1,539 of taxable income to a high of 8.98 percent on all
27 taxable income in excess of \$69,255. The taxable income
28 amounts in each of these nine tax brackets are adjusted for
29 inflation each year by the department of revenue under current
30 law, and the bill updates those taxable income amounts to
31 reflect the amounts set for the 2015 tax year.

32 The bill adds two new tax brackets and tax rates for taxable
33 income greater than \$100,000 but less than \$250,000, and for
34 taxable income in excess of \$250,000. The tax rates for the
35 two new tax brackets are set at rates that are approximately

1 2 percent and 1 percent, respectively, lower than the current
2 top tax rate of 8.98 percent. The bill also reduces each of the
3 existing nine tax rates by approximately 3 percent. The new
4 tax brackets and tax rates are as follows:

- 5 1. From \$0 to \$1,539, 0.35 percent.
- 6 2. From \$1,540 to \$3,078, 0.70 percent.
- 7 3. From \$3,079 to \$6,156, 2.36 percent.
- 8 4. From \$6,157 to \$13,851, 4.37 percent.
- 9 5. From \$13,852 to \$23,085, 5.94 percent.
- 10 6. From \$23,086 to \$30,780, 6.29 percent.
- 11 7. From \$30,781 to \$46,170, 6.60 percent.
- 12 8. From \$46,171 to \$69,255, 7.68 percent.
- 13 9. From \$69,256 to \$100,000, 8.71 percent.
- 14 10. From \$100,001 to \$250,000, 8.80 percent.
- 15 11. From \$250,001 and over, 8.89 percent.

16 The bill makes several conforming amendments to update
17 references to the tax brackets and tax rates in other parts of
18 the Code.

19 The bill applies retroactively to tax years beginning on or
20 after January 1, 2015.