

House Study Bill 215 - Introduced

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON SANDS)

A BILL FOR

1 An Act relating to the individual income tax by providing
2 an alternative base income tax and related alternative
3 cumulative income surtax imposed at the election of the
4 taxpayer and including effective date and retroactive
5 applicability provisions.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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DIVISION I

ALTERNATIVE BASE INCOME TAX AND
ALTERNATIVE CUMULATIVE INCOME SURTAX

Section 1. Section 298.14, Code 2015, is amended to read as follows:

298.14 School district income surtaxes.

1. a. For each fiscal year, the cumulative total of the percents of surtax approved by the board of directors of a school district and collected by the department of revenue under sections 257.21, 257.29, and 298.2, and the enrichment surtax under section 442.15, Code 1989, and an income surtax collected by a political subdivision under chapter 422D, shall not exceed twenty percent.

b. Notwithstanding paragraph "a", or any other provision of law to the contrary, for a taxpayer who makes an election under section 422.5A, subsection 2, and who is subject to an income surtax as provided in section 257.21, 257.29, 298.2, 442.15, Code 1989, or chapter 422D, the appropriate governing body shall impose, and the department of revenue shall collect, an alternative cumulative income surtax from the taxpayer in an amount equal to one hundred twenty-two percent of the amount generated by each surtax imposed on the taxpayer by the school district or political subdivision for the tax year in which the election is made.

2. A school district income surtax fund is created in the office of treasurer of state. Income surtaxes collected by the department of revenue under sections 257.21, 257.29, and 298.2 and section 442.15, Code 1989, shall be deposited in the school district income surtax fund to the credit of each school district. A separate accounting of each surtax, by school district, shall be maintained.

3. The director of the department of administrative services shall draw warrants in payment of the surtaxes collected in each school district. Warrants shall be payable in two installments to be paid on approximately the first day

1 of December and the first day of February following collection
2 of the taxes and shall be delivered to the respective school
3 districts.

4 Sec. 2. NEW SECTION. 422.5A Tax imposed — alternative base
5 income tax.

6 1. For purposes of this section, "*base income*" means the
7 adjusted gross income before the net operating loss deduction
8 as properly computed for federal income tax purposes under the
9 Internal Revenue Code, with the following adjustments:

10 a. Subtract a standard deduction equal to six thousand two
11 hundred thirty-five dollars for a married person who files
12 separately or a single person or equal to twelve thousand four
13 hundred seventy dollars for a married couple who files a joint
14 return, a surviving spouse, or a head of household.

15 b. Subtract interest and dividends from federal securities.

16 c. Subtract, to the extent included, the amount of social
17 security benefits taxable under section 86 of the Internal
18 Revenue Code.

19 d. Subtract, to the extent included, the total amount of a
20 governmental or other pension or retirement pay, including but
21 not limited to defined benefit or defined contribution plans,
22 annuities, individual retirement accounts, plans maintained or
23 contributed to by an employer, or maintained or contributed
24 to by a self-employed person as an employer, and deferred
25 compensation plans or any earnings attributable to the deferred
26 compensation plans.

27 2. Notwithstanding any other provision of law, a resident
28 or nonresident may, in lieu of the taxes imposed under section
29 422.5, elect to be subject to state income tax as imposed and
30 computed pursuant to subsection 3. Such election must be made
31 not later than the due date for filing the return for a taxable
32 year, including extensions thereof, and under rules to be
33 prescribed by the director.

34 3. A tax is imposed upon every resident and nonresident
35 of the state making the election under subsection 2 which tax

1 shall be levied, collected, and paid annually in an amount
2 equal to the base income of the resident or nonresident times
3 five percent.

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

10 5. A taxpayer making the election under subsection 2 shall
11 be subject to an alternative cumulative income surtax as
12 provided in section 298.14, if applicable.

13 6. a. The director shall determine for the 2016 calendar
14 year and each subsequent calendar year the annual and
15 cumulative standard deduction factors to be applied to tax
16 years beginning on or after January 1 of that calendar year.
17 The director shall compute the new dollar amounts of the
18 standard deductions specified in section 422.5A, subsection
19 1, paragraph "a", by the latest cumulative standard deduction
20 factor and round off the result to the nearest ten dollars.
21 The annual and cumulative standard deduction factors determined
22 by the director under this subsection are not rules as defined
23 in section 17A.2, subsection 11.

24 b. For purposes of this subsection and notwithstanding
25 section 422.4, subsection 2, paragraph "b", "*cumulative standard*
26 *deduction factor*" means the product of the annual standard
27 deduction factor for the 2016 calendar year and all annual
28 standard deduction factors for subsequent calendar years
29 as determined pursuant to this subsection. The cumulative
30 standard deduction factor applies to all tax years beginning
31 on or after January 1 of the calendar year for which the latest
32 annual standard deduction factor has been determined.

33 Sec. 3. Section 422.13, Code 2015, is amended by adding the
34 following new subsection:

35 NEW SUBSECTION. 1A. a. Notwithstanding subsection 1,

1 a resident or nonresident of this state who is at least
2 sixty-five years old on December 31 of the tax year and who
3 elects to be subject to the alternative base income tax in
4 subsection 422.5A, shall not be required to make and file a
5 return if the taxpayer's base income does not exceed thirty-two
6 thousand dollars in the case of married persons filing jointly
7 or filing separately on a combined return, heads of household,
8 and surviving spouses or twenty-four thousand dollars in the
9 case of all other persons. For purposes of this subsection,
10 "*base income*" means the same as defined in section 422.5A,
11 subsection 1, except that it includes all amounts of pensions
12 or other retirement income received from any source which is
13 not taxable under section 422.5A, but does not include military
14 retirement pay described in section 422.7, subsections 31A and
15 31B.

16 *b.* A taxpayer who is at least sixty-five years old on
17 December 31 of the tax year and whose base income does not
18 exceed the applicable amounts in paragraph "*a*" and who does
19 not make and file a return pursuant to this section shall be
20 deemed to have made the election required in section 422.5A,
21 subsection 2.

22 Sec. 4. Section 422.13, subsection 2, Code 2015, is amended
23 to read as follows:

24 2. For purposes of determining the requirement for filing
25 a return under subsection 1 or 1A, the combined net income or
26 base income, as the case may be, of a husband and wife from
27 sources taxable under this division shall be considered.

28 DIVISION II

29 CONFORMING CHANGES

30 Sec. 5. Section 68A.102, subsection 21, Code 2015, is
31 amended to read as follows:

32 21. "*State income tax liability*" means either the state
33 individual income tax imposed under section 422.5, less the
34 amounts of nonrefundable credits allowed under chapter 422,
35 division II, or the alternative base income tax imposed under

1 section 422.5A if applicable.

2 Sec. 6. Section 257.21, subsection 2, Code 2015, is amended
3 to read as follows:

4 2. The instructional support income surtax shall be imposed
5 on the state individual income tax for the calendar year during
6 which the school's budget year begins, or for a taxpayer's
7 fiscal year ending during the second half of that calendar year
8 and after the date the board adopts a resolution to participate
9 in the program or the first half of the succeeding calendar
10 year, and shall be imposed on all individuals residing in the
11 school district on the last day of the applicable tax year. As
12 used in this section, "*state individual income tax*" means either
13 the taxes computed under section 422.5, less the amounts of
14 nonrefundable credits allowed under chapter 422, division II,
15 except for the Iowa taxpayers trust fund tax credit allowed
16 under section 422.11E, or the tax computed under section 422.5A
17 if applicable.

18 Sec. 7. Section 422.16, subsection 8, Code 2015, is amended
19 to read as follows:

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

32 Sec. 8. Section 422.21, subsection 1, Code 2015, is amended
33 to read as follows:

34 1. Returns shall be in the form the director prescribes,
35 and shall be filed with the department on or before the last

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

27 Sec. 9. Section 422D.2, Code 2015, is amended to read as
28 follows:

29 **422D.2 Local income surtax.**

30 A county may impose by ordinance a local income surtax as
31 provided in section 422D.1 at the rate set by the board of
32 supervisors, of up to one percent, on the state individual
33 income tax of each individual residing in the county at the
34 end of the individual's applicable tax year. However, the
35 cumulative total of the percents of income surtax imposed on

1 any taxpayer in the county shall not exceed twenty percent,
2 except as provided in section 298.14. The reason for imposing
3 the surtax and the amount needed shall be set out in the
4 ordinance. The surtax rate shall be set to raise only the
5 amount needed. For purposes of this section, "*state individual*
6 *income tax*" means the tax computed under section 422.5, less
7 the amounts of nonrefundable credits allowed under chapter
8 422, division II, except for the Iowa taxpayers trust fund tax
9 credit allowed under section 422.11E, or the tax computed under
10 section 422.5A if applicable.

11 DIVISION III

12 IMPLEMENTATION

13 Sec. 10. EFFECTIVE UPON ENACTMENT. This Act, being deemed
14 of immediate importance, takes effect upon enactment.

15 Sec. 11. RETROACTIVE APPLICABILITY. This Act applies
16 retroactively to January 1, 2015, for tax years beginning on
17 or after that date.

18 EXPLANATION

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

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

24 Division I relates to the computation and imposition of an
25 alternative base income tax.

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

33 The state income tax of a taxpayer making an election
34 shall be an amount of tax equal to the taxpayer's base income
35 times 5 percent. "Base income" is defined as the taxpayer's

1 adjusted gross income before the net operating loss deduction
2 as properly computed for federal income tax purposes, less a
3 standard deduction of \$6,235 for a married person who files
4 separately or a single person or \$12,470 for a married couple
5 filing a joint return, a surviving spouse, or a head of
6 household, less interest and dividends from federal securities,
7 and less social security benefits and retirement income. The
8 division indexes the standard deduction amounts for future
9 inflation. A taxpayer shall not be allowed any nonrefundable
10 or refundable tax credit for the tax year for which the
11 election is made, except the credits for withheld tax and
12 estimated tax paid under Code section 422.16.

13 Taxpayers who are 65 years of age or older who elect the
14 alternative base income tax are not required to file an
15 income tax return if base income does not exceed \$32,000 for
16 a married person filing jointly or filing separately on a
17 combined return, a head of household, or a surviving spouse,
18 or \$24,000 for all other persons. For purposes of calculating
19 base income for the filing threshold, taxpayers are required
20 to add back any social security benefits or retirement income
21 otherwise exempt under the bill except for military retirement
22 pay. Taxpayers who meet these requirements and who do not file
23 a tax return are deemed to have elected to be subject to the
24 alternative base income tax.

25 If a taxpayer making an election is also subject to a local
26 income surtax, that taxpayer is subject to a local income
27 surtax rate that is 22 percent higher than the rate otherwise
28 imposed by the school district or political subdivision.

29 Division II relates to miscellaneous conforming changes.

30 The division makes conforming changes to the definitions of
31 "state income tax liability" for purposes of the Iowa election
32 campaign fund income tax checkoff in Code chapter 68A, and
33 "state individual income tax" for purposes of the emergency
34 medical services income surtax in Code chapter 422D, the
35 instructional support income surtax in Code section 257.21,

1 and, by reference, the educational improvement income surtax
2 in Code section 257.29 and the physical plant and equipment
3 income surtax in Code section 298.2, to include income tax
4 computed and imposed under the alternative system in new Code
5 section 422.5A. The division also amends Code sections 422.16
6 and 422.21 to include references to new Code section 422.5A
7 in provisions of those Code sections that reference the tax
8 imposed under Code section 422.5.

9 Division III relates to implementation of the bill.

10 The division provides that the bill takes effect upon
11 enactment and applies retroactively to January 1, 2015, for tax
12 years beginning on or after that date.