

House Study Bill 174 - Introduced

SENATE/HOUSE FILE _____
BY (PROPOSED GOVERNOR BILL)

A BILL FOR

1 An Act relating to state taxation by authorizing future tax
2 contingencies, excluding certain grants from the computation
3 of net income for the individual or corporate income tax,
4 providing for tax credits and deductions, and including
5 effective date and retroactive applicability provisions.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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DIVISION I

FUTURE TAX CHANGES

Section 1. 2018 Iowa Acts, chapter 1161, section 133, is amended by striking the section and inserting in lieu thereof the following:

SEC. 133. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

DIVISION II

INSTALLMENT SALES — CAPITAL GAINS

Sec. 2. 2018 Iowa Acts, chapter 1161, section 134, is amended to read as follows:

SEC. 134. APPLICABILITY.

1. This division of this Act applies to tax years beginning on or after the effective date of this division of this Act.

2. The section of this division of this Act amending section 422.7, subsection 21, as amended by 2019 Iowa Acts, chapter 162, applies to sales consummated on or after the effective date of this division of this Act, and sales consummated prior to the effective date of this division of this Act shall be governed by law as it existed prior to the effective date of this division of this Act.

DIVISION III

COVID-19 RELATED GRANTS — TAXATION

Sec. 3. Section 422.7, subsection 62, Code 2021, is amended to read as follows:

62. a. Subtract, to the extent included, the amount of any financial assistance qualifying COVID-19 grant provided to an eligible small issued to an individual or business by the economic development authority under the Iowa small business relief grant program created during calendar year 2020 to provide financial assistance to eligible small businesses economically impacted by the COVID-19 pandemic, the Iowa finance authority, or the department of agriculture and land stewardship.

b. For purposes of this subsection, "qualifying COVID-19

1 grant” includes any grant identified by the department by rule
2 that was issued under a grant program administered by the
3 economic development authority, Iowa finance authority, or
4 the department of agriculture and land stewardship to provide
5 financial assistance to individuals and businesses economically
6 impacted by the COVID-19 pandemic.

7 c. The economic development authority, Iowa finance
8 authority, or the department of agriculture and land
9 stewardship shall notify the department of any COVID-19 grant
10 program that may qualify under this subsection in the manner
11 and form prescribed by the department.

12 d. This subsection is repealed January 1, 2024, and does not
13 apply to tax years beginning on or after that date.

14 Sec. 4. Section 422.35, subsection 30, Code 2021, is amended
15 to read as follows:

16 30. a. Subtract, to the extent included, the amount of
17 any financial assistance qualifying COVID-19 grant provided
18 to an eligible small issued to a business by the economic
19 development authority under the Iowa small business relief
20 grant program created during calendar year 2020 to provide
21 financial assistance to eligible small businesses economically
22 impacted by the COVID-19 pandemic, the Iowa finance authority,
23 or the department of agriculture and land stewardship.

24 b. For purposes of this subsection, “qualifying COVID-19
25 grant” includes any grant identified by the department by rule
26 that was issued under a grant program administered by the
27 economic development authority, Iowa finance authority, or
28 the department of agriculture and land stewardship to provide
29 financial assistance to businesses economically impacted by the
30 COVID-19 pandemic.

31 c. The economic development authority, Iowa finance
32 authority, or the department of agriculture and land
33 stewardship shall notify the department of any COVID-19 grant
34 program that may qualify under this subsection in the manner
35 and form prescribed by the department.

1 d. This subsection is repealed January 1, 2024, and does not
2 apply to tax years beginning on or after that date.

3 Sec. 5. EFFECTIVE DATE. This division of this Act, being
4 deemed of immediate importance, takes effect upon enactment.

5 Sec. 6. RETROACTIVE APPLICABILITY. This division of this
6 Act applies retroactively to March 23, 2020, for tax years
7 ending on or after that date.

8 DIVISION IV

9 HOOVER PRESIDENTIAL LIBRARY TAX CREDIT

10 Sec. 7. NEW SECTION. 15E.364 Hoover presidential library
11 tax credit.

12 1. For tax years beginning on or after January 1, 2022,
13 but before January 1, 2025, a tax credit shall be allowed
14 against the taxes imposed in chapter 422, subchapters II, III,
15 and V, and in chapter 432, and against the moneys and credits
16 tax imposed in section 533.329, equal to twenty-five percent
17 of a person's donation during the tax year to the Hoover
18 presidential foundation for the Hoover presidential library and
19 museum renovation project fund. An individual may claim a tax
20 credit under this section of a partnership, limited liability
21 company, S corporation, estate, or trust electing to have
22 income taxed directly to the individual. The amount claimed
23 by the individual shall be based upon the pro rata share of the
24 individual's earnings from the partnership, limited liability
25 company, S corporation, estate, or trust.

26 2. The amount of the donation for which the tax credit is
27 claimed shall not be deductible in determining taxable income
28 for state income tax purposes.

29 3. Any tax credit in excess of the person's tax liability
30 for the tax year may be credited to the tax liability for the
31 following five years or until depleted, whichever occurs first.
32 A tax credit shall not be carried back to a tax year prior to
33 the tax year in which the person claims the tax credit.

34 4. a. The aggregate amount of tax credits authorized
35 pursuant to this section shall not exceed a total of four

1 million dollars.

2 *b.* The maximum amount of tax credits granted to a person
3 shall not exceed five percent of the aggregate amount of tax
4 credits authorized.

5 *c.* Ten percent of the aggregate amount of tax credits
6 authorized shall be reserved for those donations in amounts
7 of thirty thousand dollars or less. If any portion of the
8 reserved tax credits have not been distributed by September 1,
9 2024, the remaining reserved tax credits shall be available to
10 any other eligible person.

11 5. The tax credit shall not be transferable to any other
12 person.

13 6. The authority shall develop a system for authorization
14 of tax credits under this section and shall control the
15 distribution of all tax credits to persons providing a
16 donation subject to this section. The authority shall
17 adopt administrative rules pursuant to chapter 17A for the
18 qualification and administration of the donations made pursuant
19 to this section.

20 7. This section is repealed December 31, 2030.

21 Sec. 8. NEW SECTION. 422.120 Hoover presidential library
22 tax credit.

23 The tax imposed under this subchapter, less the credits
24 allowed under section 422.12, shall be reduced by Hoover
25 presidential library tax credit authorized pursuant to section
26 15E.364.

27 Sec. 9. Section 422.33, Code 2021, is amended by adding the
28 following new subsection:

29 NEW SUBSECTION. 31. The taxes imposed under this subchapter
30 shall be reduced by a Hoover presidential library tax credit
31 allowed under section 15E.364.

32 Sec. 10. Section 422.60, Code 2021, is amended by adding the
33 following new subsection:

34 NEW SUBSECTION. 14. The taxes imposed under this subchapter
35 shall be reduced by a Hoover presidential library tax credit

1 allowed under section 15E.364.

2 Sec. 11. NEW SECTION. 432.12N Hoover presidential library
3 tax credit.

4 The taxes imposed under this chapter shall be reduced by a
5 Hoover presidential library tax credit allowed under section
6 15E.364.

7 Sec. 12. Section 533.329, subsection 2, Code 2021, is
8 amended by adding the following new paragraph:

9 NEW PARAGRAPH. 1. The moneys and credits tax imposed under
10 this section shall be reduced by a Hoover presidential library
11 tax credit allowed under section 15E.364.

12 DIVISION V

13 FEDERAL PAYCHECK PROTECTION PROGRAM

14 Sec. 13. FEDERAL PAYCHECK PROTECTION
15 PROGRAM. Notwithstanding any other provision of the law
16 to the contrary, for any tax year ending after March 27,
17 2020, Division N, Tit. II, Subtitle B, §276 of the federal
18 Consolidated Appropriations Act, 2021, Pub. L. No. 116-260,
19 applies in computing net income for state tax purposes under
20 section 422.7 or 422.35.

21 EXPLANATION

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

24 This bill relates to state taxation by authorizing future
25 tax contingencies, excludes certain grants from the computation
26 of net income for individual or corporate income tax, creates a
27 new tax credit, and provides for an exemption from the state
28 sales and use tax.

29 DIVISION I — FUTURE TAX CHANGES. The bill amends 2018 Iowa
30 Acts, chapter 1161, section 133 (trigger), by striking the two
31 conditions necessary for the trigger to occur, and specifies
32 the provisions in 2018 Iowa Acts, chapter 1161, sections
33 99-132, take effect January 1, 2023.

34 Currently, the two conditions are necessary for the trigger
35 to occur include net general fund revenues for the fiscal year

1 ending June 30, 2022, equaling or exceeding \$8.3146 billion,
 2 and also equaling or exceeding 104 percent of the net general
 3 fund revenues for the fiscal year ending June 30, 2021. If
 4 these two conditions are not satisfied, current law institutes
 5 the changes for tax years beginning on or after the January 1
 6 following the first fiscal year for which the two conditions
 7 do occur. By striking the "trigger", the bill sets in motion
 8 numerous tax changes for tax years beginning on or after
 9 January 1, 2023, described below.

10 INDIVIDUAL INCOME TAX. The tax changes include reducing the
 11 number of individual income tax brackets from nine to four, and
 12 modifying the taxable income amounts and tax rates as follows:

	Income over:	But not over:	Tax Rate:
14	1) \$0	\$6,000	4.40%
15	2) \$6,000	\$30,000	4.82%
16	3) \$30,000	\$75,000	5.70%
17	4) \$75,000		6.50%

18 For a married couple filing a joint return, the taxable
 19 income amounts in each bracket above are doubled. Also, the
 20 taxable income amounts in each bracket above will be indexed to
 21 inflation and increased in future tax years, beginning in the
 22 tax year following the 2023 tax year.

23 INDIVIDUAL INCOME TAX CALCULATION. Under current law, the
 24 starting point for computing the Iowa individual income tax is
 25 federal adjusted gross income before the net operating loss
 26 deduction, which is generally a taxpayer's gross income minus
 27 several deductions. From that point, Iowa requires several
 28 adjustments and then provides taxpayers with a deduction
 29 for federal income taxes paid, and the option to deduct a
 30 standard deduction or itemized deductions. The bill changes
 31 the starting point for computing the individual income tax
 32 to federal taxable income, which includes all deductions and
 33 adjustments taken at the federal level in computing tax,
 34 including a standard deduction or itemized deductions, and the
 35 qualified business income deduction allowed for certain income

1 earned from a pass-through entity. Because the starting point
2 changes to federal taxable income, and federal law does not
3 provide for the filing status of married filing separately
4 on a combined return, the bill repeals that filing status
5 option for Iowa tax purposes. Because net operating loss is
6 no longer calculated at the state level, the bill requires a
7 taxpayer to add back any federal net operating loss deduction
8 carried over from a taxable year beginning prior to the 2023
9 tax year, but allows taxpayers to deduct any remaining Iowa net
10 operating loss from a prior taxable year. The bill repeals the
11 individual alternative minimum tax (AMT), allows an individual
12 to claim any remaining AMT credit against the individual's
13 regular tax liability for the 2023 tax year, and then repeals
14 the AMT credit in the tax year following the 2023 tax year.
15 The bill repeals most Iowa-specific deductions, exemptions,
16 and adjustments currently available when computing net income
17 and taxable income under Iowa law, including the Iowa optional
18 standard deduction and all itemized deductions, and the ability
19 to deduct federal income taxes, except for a one-year phase
20 out in the 2023 tax year for taxes paid, or refunds received,
21 that relate to a prior year. The bill maintains the add-back
22 for income from securities that are federally exempt but not
23 state-exempt, and for bonus depreciation amounts. The bill
24 maintains the general pension exclusion and the deduction
25 for income from federal securities. The bill maintains the
26 deduction for contributions to the Iowa 529 plan, the Iowa ABLE
27 plan, a first-time homebuyer savings account, and an individual
28 development account. The bill also maintains the deductions
29 for military pension income, military active duty pay, social
30 security retirement benefits, certain payments received for
31 providing unskilled in-home health care, certain amounts
32 received from the veterans trust fund, victim compensation
33 awards, biodiesel production refunds, certain wages paid
34 to individuals with disabilities or individuals previously
35 convicted of a felony, certain organ donations, and Segal

1 AmeriCorps education award payments. The bill modifies the
2 existing deduction for health insurance payments in Code
3 section 422.7(29) to make the deduction only applicable to
4 taxpayers who are at least 65 years old and who have net
5 income below \$100,000. The bill also modifies the existing
6 capital gain deduction in Code section 422.7(21) to restrict
7 the deduction to the sale of real property used in farming
8 businesses by permitting the taxpayer to take the deduction
9 if either of the following apply: the taxpayer materially
10 participated in the farming business for at least 10 years and
11 held the real property for at least 10 years; or the taxpayer
12 sold the real property to a relative. The bill expands the
13 definition of "relative" to include an entity in which a
14 relative of the taxpayer has a legal or equitable interest in
15 the entity as an owner, member, partner, or beneficiary. The
16 bill provides a new deduction for any income of an employee
17 resulting from the payment by an employer, whether paid to
18 the employee or a lender, of principal or interest on the
19 employee's qualified education loan. The bill also modifies
20 the calculation of net income for purposes of the alternate
21 tax calculation in Code section 422.5(3) and (3B), and the tax
22 return filing thresholds in Code section 422.13, to require
23 that any amount of itemized deduction, standard deduction,
24 personal exemption deduction, or qualified business income
25 deduction that was allowed in computing federal taxable income
26 shall be added back.

27 CORPORATE INCOME TAX AND FRANCHISE TAX CALCULATION. Under
28 current law, the starting point for calculating the corporate
29 income tax and franchise tax is federal taxable income before
30 the net operating loss deduction, because net operating loss is
31 calculated at the state level. The bill repeals the separate
32 calculation of net operating loss at the state level. As a
33 result, the bill requires taxpayers to add back any federal
34 net operating loss deduction carried over from a taxable year
35 beginning prior to the trigger year, but allows taxpayers to

1 deduct any remaining Iowa net operating loss from a prior
2 taxable year. The bill also repeals most Iowa-specific
3 deductions, exemptions, and adjustments currently available
4 when computing net income and taxable income under Iowa law.
5 The bill maintains the add-back for income from securities
6 that are federally exempt but not state exempt, and for bonus
7 depreciation amounts. The bill maintains the deductions for
8 income from federal securities, for foreign dividend and
9 subpart F income, for certain wages paid to individuals with
10 disabilities or individuals previously convicted of a felony,
11 and for biodiesel production refunds.

12 DIVISION II — INSTALLMENT SALES — CAPITAL GAINS.

13 Currently, the capital gain individual income tax deduction is
14 governed by Code section 422.7(21). The capital gain deduction
15 in Code section 422.7(21) is amended when the trigger occurs
16 in 2018 Iowa Acts, chapter 1161, section 113. The capital
17 gain deduction in 2018 Iowa Acts, chapter 1161, section 113,
18 was further amended by 2019 Iowa Acts, chapter 162. Division
19 I of the bill removes the triggers and specifies that 2018
20 Iowa Acts, chapter 1161, sections 99 through 132, take effect
21 January 1, 2023, including the changes to the capital gain
22 deduction mentioned above. The bill specifies that for
23 sales occurring on or after January 1, 2023, the capital gain
24 deduction is governed by 2019 Iowa Acts, chapter 162, and
25 for sales occurring prior to January 1, 2023, the capital
26 gain deduction is governed by existing law in Code section
27 422.7(21).

28 DIVISION III — COVID-19 RELATED GRANTS — TAXATION. The
29 bill excludes from the calculation of Iowa individual and
30 corporate income tax any qualifying COVID-19 grant issued to an
31 individual or business by the economic development authority,
32 the Iowa finance authority, or the department of agriculture
33 and land stewardship.

34 Under the bill, a "qualifying COVID-19 grant" includes
35 any grant identified by the department of revenue by rule

1 that was issued under a grant program administered by the
2 economic development authority, Iowa finance authority, or
3 the department of agriculture and land stewardship to provide
4 financial assistance to individuals and businesses economically
5 impacted by the COVID-19 pandemic.

6 Under current law, financial assistance grants provided to
7 small businesses by the economic development authority under
8 the Iowa small business COVID-19 relief grant program are
9 excluded from the calculation of Iowa individual and corporate
10 income tax.

11 The COVID-19 grant income tax exclusion provided in the bill
12 is repealed on January 1, 2024, and does not apply to tax years
13 beginning on or after that date.

14 The division takes effect upon enactment and applies
15 retroactively to March 23, 2020, for tax years ending on or
16 after that date.

17 DIVISION IV — HOOVER PRESIDENTIAL LIBRARY TAX CREDIT. The
18 bill creates a Hoover presidential library tax credit available
19 against the individual, corporate, franchise, insurance
20 premium, and moneys and credits taxes.

21 The amount of the credit shall equal 25 percent of a
22 person's donation during a tax year to the Hoover presidential
23 foundation for the Hoover presidential library and museum
24 renovation project fund, an organization exempt from federal
25 taxation.

26 The bill specifies that the amount of the donation for which
27 the tax credit is claimed shall not be deductible for state
28 income tax purposes.

29 A credit provided in the bill in excess of tax liability is
30 not refundable but the excess for the tax year may be credited
31 to a person's tax liability for the following five years or
32 until depleted, whichever occurs first. The tax credit shall
33 not be carried back to a tax year prior to the tax year in which
34 the person claims the tax credit.

35 The aggregate amount of tax credits authorized pursuant to

1 the bill shall not exceed \$4 million.

2 The maximum amount of tax credits granted to a person shall
3 not exceed 5 percent of the aggregate amount of tax credits
4 authorized under the bill.

5 The bill provides that 10 percent of the aggregate amount of
6 tax credits authorized shall be reserved for those donations
7 in amounts of \$30,000 or less. If any portion of the reserved
8 tax credits have not been distributed by September 1, 2024, the
9 remaining reserved tax credits shall be available to any other
10 eligible person.

11 The bill prohibits the transfer of the credit to any other
12 person.

13 The bill requires the economic development authority
14 to develop a system for authorization of tax credits and
15 shall control the distribution of all tax credits to persons
16 providing a donation subject to this Code section.

17 The bill applies to tax years beginning on or after January
18 1, 2022, but before January 1, 2025.

19 The tax credit is repealed December 31, 2030, to account for
20 the carryforward of any excess credit that may be credited to
21 the person's tax liability for up to five years.

22 DIVISION V — FEDERAL PAYCHECK PROTECTION PROGRAM. Under
23 current law, for the tax year 2020 and later, Iowa law fully
24 conforms with the federal treatment of forgiven paycheck
25 protection program loans and excludes such amounts from net
26 income and allows certain deductions for business expenses
27 paid using those loans. For fiscal-year filers who received
28 paycheck protection program loans during the 2019 tax year,
29 current law excludes such amounts from net income, but does
30 not allow certain deductions for business expenses paid using
31 those loans. The bill fully conforms with federal law for
32 those fiscal-year filers who previously were excluded from such
33 conformity and allows such filers to take business expense
34 deductions using federal paycheck protection program loan
35 proceeds that were forgiven.