SENATE FILE 576
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 1250)

A BILL FOR

An Act authorizing future tax contingencies, reducing the state inheritance tax rates and providing for the future repeal of the state inheritance tax and state qualified use inheritance tax, and including effective date and retroactive applicability provisions.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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

INHERITANCE TAX

Sec. 2. Section 450.10, Code 2021, is amended by adding the following new subsection:

NEW SUBSECTION. 7. *a.* In lieu of each rate of tax imposed in subsections 1 through 4, for property passing from the estate of a decedent dying on or after January 1, 2021, but before January 1, 2022, there shall be imposed a rate of tax equal to the applicable tax rate in subsections 1 through 4, reduced by twenty-five percent, and rounded to the nearest one-hundredth of one percent.

b. In lieu of each rate of tax imposed in subsections 1 through 4, for property passing from the estate of a decedent dying on or after January 1, 2022, but before January 1, 2023, there shall be imposed a rate of tax equal to the applicable tax rate in subsections 1 through 4, reduced by fifty percent, and rounded to the nearest one-hundredth of one percent.

c. In lieu of each rate of tax imposed in subsections 1 through 4, for property passing from the estate of a decedent dying on or after January 1, 2023, but before January 1, 2024, there shall be imposed a rate of tax equal to the applicable tax rate in subsections 1 through 4, reduced by seventy-five percent, and rounded to the nearest one-hundredth of one percent.

Sec. 3. NEW SECTION. **450.98 Tax repealed.**

Effective January 1, 2024, this chapter shall not apply to property of estates of decedents dying on or after January 1, 2024. The inheritance tax shall not be imposed under this chapter in the event the decedent dies on or after January 1, 2024, and, to this extent, this chapter is repealed.

Sec. 4. NEW SECTION. **450B.8 Tax repealed.**

Effective January 1, 2024, this chapter shall not apply to property of estates of decedents dying on or after January 1, 2024. The qualified use inheritance tax shall not be imposed under this chapter in the event the decedent dies on or after January 1, 2024, and, to this extent, this chapter is repealed.

Sec. 5. CODE EDITOR DIRECTIVE. The Code editor is directed to remove chapters 450 and 450B from the Code and correct appropriate references to chapters 450 and 450B and appropriate references to the inheritance tax and qualified use inheritance tax effective January 1, 2034.

Sec. 6. EFFECTIVE DATE. This division of this Act, being deemed of immediate importance, takes effect upon enactment.

Sec. 7. APPLICABILITY. This division of this Act applies retroactively to the estates of decedents dying on or after January 1, 2021.

EXPLANATION

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

This bill authorizes future tax contingencies and proportionally reduces over a three-year period the rates of tax applicable to the state inheritance tax, beginning with estates of decedents dying on or after January 1, 2021, and repeals the state inheritance tax beginning with estates of decedents dying on or after January 1, 2024.

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

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

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

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

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

INDIVIDUAL INCOME TAX CALCULATION. Under current law, the starting point for computing the Iowa individual income tax is federal adjusted gross income before the net operating loss deduction, which is generally a taxpayer's gross income minus several deductions. From that point, Iowa requires several adjustments and then provides taxpayers with a deduction for federal income taxes paid, and the option to deduct a standard deduction or itemized deductions. The bill changes the starting point for computing the individual income tax to federal taxable income, which includes all deductions and adjustments taken at the federal level in computing tax, including a standard deduction or itemized deductions, and the qualified business income deduction allowed for certain income earned from a pass-through entity. Because the starting point changes to federal taxable income, and federal law does not provide for the filing status of married filing separately on a combined return, the bill repeals that filing status option for Iowa tax purposes. Because net operating loss is no longer calculated at the state level, the bill requires a taxpayer to add back any federal net operating loss deduction carried over from a taxable year beginning prior to the 2023 tax year, but allows taxpayers to deduct any remaining Iowa net operating loss from a prior taxable year. The bill repeals the individual alternative minimum tax (AMT), allows an individual to claim any remaining AMT credit against the individual's regular tax liability for the 2023 tax year, and then repeals the AMT credit in the tax year following the 2023 tax year. The bill repeals most Iowa-specific deductions, exemptions, and adjustments currently available when computing net income and taxable income under Iowa law, including the Iowa optional standard deduction and all itemized deductions, and the ability to deduct federal income taxes, except for a one-year phase out in the 2023 tax year for taxes paid, or refunds received, that relate to a prior year. The bill maintains the add-back for income from securities that are federally exempt but not state-exempt, and for bonus depreciation amounts. The bill maintains the general pension exclusion and the deduction for income from federal securities. The bill maintains the deduction for contributions to the Iowa 529 plan, the Iowa ABLE plan, a first-time homebuyer savings account, and an individual development account. The bill also maintains the deductions for military pension income, military active duty pay, social security retirement benefits, certain payments received for providing unskilled in-home health care, certain amounts received from the veterans trust fund, victim compensation awards, biodiesel production refunds, certain wages paid to individuals with disabilities or individuals previously convicted of a felony, certain organ donations, and Segal AmeriCorps education award payments. The bill modifies the existing deduction for health insurance payments in Code section 422.7(29) to make the deduction only applicable to taxpayers who are at least 65 years old and who have net income below $100,000. The bill also modifies the existing capital gain deduction in Code section 422.7(21) to restrict the deduction to the sale of real property used in farming businesses by permitting the taxpayer to take the deduction if either of the following apply: the taxpayer materially participated in the farming business for at least 10 years and held the real property for at least 10 years; or the taxpayer sold the real property to a relative. The bill expands the definition of "relative" to include an entity in which a relative of the taxpayer has a legal or equitable interest in the entity as an owner, member, partner, or beneficiary. The bill provides a new deduction for any income of an employee resulting from the payment by an employer, whether paid to the employee or a lender, of principal or interest on the employee's qualified education loan. The bill also modifies the calculation of net income for purposes of the alternate tax calculation in Code section 422.5(3) and (3B), and the tax return filing thresholds in Code section 422.13, to require that any amount of itemized deduction, standard deduction, personal exemption deduction, or qualified business income deduction that was allowed in computing federal taxable income shall be added back.

CORPORATE INCOME TAX AND FRANCHISE TAX CALCULATION. Under current law, the starting point for calculating the corporate income tax and franchise tax is federal taxable income before the net operating loss deduction, because net operating loss is calculated at the state level. The bill repeals the separate calculation of net operating loss at the state level. As a result, the bill requires taxpayers to add back any federal net operating loss deduction carried over from a taxable year beginning prior to the trigger year, but allows taxpayers to deduct any remaining Iowa net operating loss from a prior taxable year. The bill also repeals most Iowa-specific deductions, exemptions, and adjustments currently available when computing net income and taxable income under Iowa law. The bill maintains the add-back for income from securities that are federally exempt but not state exempt, and for bonus depreciation amounts. The bill maintains the deductions for income from federal securities, for foreign dividend and subpart F income, for certain wages paid to individuals with disabilities or individuals previously convicted of a felony, and for biodiesel production refunds.

DIVISION II —— INHERITANCE TAX. For decedents dying on or after January 1, 2021, but before January 1, 2022, the rates of tax applicable to the state inheritance tax are reduced 25 percent. For decedents dying on or after January 1, 2022, but before January 1, 2023, the rates of tax applicable to the state inheritance tax are reduced 50 percent. For decedents dying on or after January 1, 2023, but before January 1, 2024, the rates of tax applicable to the state inheritance tax are reduced 75 percent.

The bill then repeals the state inheritance tax and the state qualified use inheritance tax effective January 1, 2024, for property of estates of decedents dying on or after January 1, 2024. Inheritance tax will not be imposed on any property in the event of the death of an individual on or after January 1, 2024. The bill directs the Code editor to remove Code chapters 450 (inheritance tax) and 450B (qualified use inheritance tax) from the Code effective January 1, 2034.

The division takes effect upon enactment and applies retroactively to the estates of decedents dying on or after January 1, 2021.