

Senate File 2398 - Introduced

SENATE FILE 2398

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 3038)

A BILL FOR

1 An Act relating to state taxation by modifying alternate and
2 individual income tax rates, and including effective date
3 and retroactive applicability provisions.

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

1 Section 1. Section 421.27, subsection 9, paragraph a,
2 subparagraph (3), Code 2024, is amended to read as follows:

3 (3) In the case of all other entities, including
4 corporations described in [section 422.36, subsection 5](#), and all
5 other entities required to file an information return under
6 section 422.15, subsection 2, the entity's Iowa net income
7 after the application of the Iowa business activity ratio,
8 if applicable, multiplied by the ~~top~~ income tax rate imposed
9 under [section 422.5A 422.5](#) for the tax year, less any Iowa tax
10 credits available to the entity.

11 Sec. 2. Section 422.5, subsection 1, paragraph a, Code 2024,
12 is amended to read as follows:

13 a. A tax is imposed upon every resident and nonresident
14 of the state which tax shall be levied, collected, and paid
15 annually upon and with respect to the entire taxable income
16 as defined in [this subchapter](#) at ~~rates as provided in section~~
17 ~~422.5A.~~ the following rates:

18 (1) For the tax year beginning on or after January 1, 2024,
19 but before January 1, 2025, a rate of 3.65 percent.

20 (2) For the tax years beginning on or after January 1, 2025,
21 a rate of 3.50 percent.

22 Sec. 3. Section 422.5, subsection 2, paragraph b, Code 2024,
23 is amended by striking the paragraph.

24 Sec. 4. Section 422.5, subsection 3, paragraph b, Code 2024,
25 is amended by striking the paragraph.

26 Sec. 5. Section 422.5, subsection 6, Code 2024, is amended
27 by striking the subsection.

28 Sec. 6. Section 422.16, subsection 2, paragraph e, Code
29 2024, is amended to read as follows:

30 e. For the purposes of [this subsection](#), state income tax
31 shall be withheld at the ~~highest~~ rate for the applicable tax
32 year described in [section 422.5A 422.5](#) from supplemental wages
33 of an employee in those circumstances in which the employer
34 treats the supplemental wages as wholly separate from regular
35 wages for purposes of withholding and federal income tax is

1 withheld from the supplemental wages under section 3402(g) of
2 the Internal Revenue Code.

3 Sec. 7. Section 422.16B, subsection 2, paragraph a, Code
4 2024, is amended to read as follows:

5 a. (1) A pass-through entity shall file a composite return
6 on behalf of all nonresident members and shall report and pay
7 the income or franchise tax imposed under [this chapter](#) at the
8 maximum state income or franchise tax rate applicable to the
9 member under [section 422.5A 422.5](#), [422.33](#), or [422.63](#) on the
10 nonresident members' distributive shares of the income from the
11 pass-through entity.

12 (2) The tax rate applicable to a tiered pass-through entity
13 shall be the ~~maximum~~ state income tax rate under ~~section 422.5A~~
14 [422.5](#).

15 Sec. 8. Section 422.16C, subsection 4, paragraph a, Code
16 2024, is amended to read as follows:

17 a. A taxpayer making an election under [this section](#) shall
18 be subject to tax in an amount equal to the ~~maximum~~ rate for
19 the applicable tax year under ~~section 422.5A 422.5~~, imposed
20 against the taxable income of the taxpayer for the taxable
21 year properly determined under [this chapter](#) and allocated
22 and apportioned to the state under the rules adopted by the
23 department. The tax shall be due with the taxpayer's return
24 required under [this chapter](#).

25 Sec. 9. Section 422.16C, subsection 5, paragraph a,
26 subparagraph (2), Code 2024, is amended to read as follows:

27 (2) The difference between one hundred percent and the
28 ~~highest~~ individual income tax rate in effect for the tax year.

29 Sec. 10. Section 422.21, subsection 5, Code 2024, is amended
30 to read as follows:

31 5. The director shall determine for the 2023 calendar year
32 and each subsequent calendar year the annual and cumulative
33 inflation factors for each calendar year to be applied to tax
34 years beginning on or after January 1 of that calendar year.

35 ~~The director shall compute the new dollar amounts as specified~~

1 ~~to be adjusted in section 422.5 by the latest cumulative~~
2 ~~inflation factor and round off the result to the nearest one~~
3 ~~dollar.~~ The annual and cumulative inflation factors determined
4 by the director are not rules as defined in section 17A.2,
5 subsection 11.

6 Sec. 11. Section 422.25A, subsection 5, paragraph c,
7 subparagraphs (3), (4), and (5), Code 2024, are amended to read
8 as follows:

9 (3) Determine the total distributive share of all final
10 federal partnership adjustments and positive reallocation
11 adjustments as modified by [this title](#) that are reported to
12 nonresident individual partners and nonresident fiduciary
13 partners and allocate and apportion such adjustments as
14 provided in [section 422.33](#) at the partnership or tiered partner
15 level, and multiply the resulting amount by the ~~maximum~~ highest
16 individual income tax rate pursuant to ~~section 422.5A~~ for the
17 reviewed year.

18 (4) For the total distributive share of all final federal
19 partnership adjustments and positive reallocation adjustments
20 as modified by [this title](#) that are reported to tiered partners:

21 (a) Determine the amount of such adjustments which are of a
22 type that would be subject to sourcing to Iowa under section
23 422.8, subsection 2, paragraph "a", as a nonresident, and then
24 determine the portion of this amount that would be sourced to
25 Iowa under those provisions as if the tiered partner were a
26 nonresident.

27 (b) Determine the amount of such adjustments which are of
28 a type that would not be subject to sourcing to Iowa under
29 section 422.8, subsection 2, paragraph "a", as a nonresident.

30 (c) Determine the portion of the amount in subparagraph
31 division (b) that can be established, as prescribed by the
32 department by rule, to be properly allocable to indirect
33 partners that are nonresident partners or other partners not
34 subject to tax on the adjustments.

35 (d) Multiply the total of the amounts determined in

1 subparagraph divisions (a) and (b), reduced by any amount
2 determined in subparagraph division (c), by the highest
3 individual income tax rate pursuant to ~~section 422.5A~~ for the
4 reviewed year.

5 (5) For the total distributive share of all final federal
6 partnership adjustments and positive reallocation adjustments
7 as modified by [this title](#) that are reported to resident
8 individual partners and resident fiduciary partners, multiply
9 that amount by the highest individual income tax rate pursuant
10 to ~~section 422.5A~~ for the reviewed year.

11 Sec. 12. REPEAL. 2022 Iowa Acts, chapter 1002, sections 19,
12 20, 21, 22, 23, and 24, are repealed.

13 Sec. 13. REPEAL. 2023 Iowa Acts, chapter 115, sections 20
14 and 21, are repealed.

15 Sec. 14. REPEAL. Section 422.5A, Code 2024, is repealed.

16 Sec. 15. RATE OF WITHHOLDING. Notwithstanding any other
17 provision of law to the contrary, for tax years beginning on
18 or after January 1, 2024, any required rate of withholding
19 shall not be higher than the rate for the applicable tax year
20 pursuant to section 422.5 as amended by this Act.

21 Sec. 16. EFFECTIVE DATE. This Act, being deemed of
22 immediate importance, takes effect upon enactment.

23 Sec. 17. RETROACTIVE APPLICABILITY. This Act applies
24 retroactively to January 1, 2024, for tax years beginning on
25 or after that date.

26 EXPLANATION

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

29 This bill relates to state taxation by modifying alternate
30 and individual income tax rates.

31 The bill strikes the graduated individual income tax rates
32 that go into effect in tax years 2024 and 2025, and establishes
33 new individual income tax flat rates beginning in tax years on
34 or after January 1, 2024.

35 The bill establishes the individual income tax flat rate for

1 the tax year beginning January 1, 2024, but before January 1,
2 2025, at 3.65 percent.

3 The bill establishes the individual income tax flat rate for
4 the tax years beginning on or after January 1, 2025, at 3.50
5 percent. Under current law, the individual income tax flat
6 rate of 3.90 percent goes into effect for tax years beginning
7 on or after January 1, 2026.

8 The bill strikes references to calculating the latest
9 cumulative inflation factor in Code section 422.5(6) and Code
10 section 422.21(5) due to removing income tax brackets and
11 establishing the individual income tax flat rate commencing
12 with tax years beginning on or after January 1, 2024.

13 The bill repeals the alternate individual income tax rates.
14 The alternate income tax rate is available for a taxpayer whose
15 income marginally exceeds the individual income tax filing
16 thresholds in Code sections 422.5(2) and (3), and is used to
17 calculate income tax owed.

18 The bill takes effect upon enactment and applies
19 retroactively to tax years beginning on or after January 1,
20 2024.