

House File 701

HOUSE FILE _____
BY COMMITTEE ON WAYS AND MEANS
(SUCCESSOR TO HSB 319)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the individual income tax by reducing the tax
2 rates and number of tax brackets, eliminating the deduction
3 for federal income taxes, and including a contingent
4 effective and applicability date provision.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
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1 1 Section 1. Section 422.5, subsection 1, paragraphs a
1 2 through i, Code 2003, are amended by striking the paragraphs
1 3 and inserting in lieu thereof the following:
1 4 a. On all taxable income from zero through eight thousand
1 5 dollars, one and nine-tenths percent.
1 6 b. On all taxable income exceeding eight thousand dollars
1 7 but not exceeding one hundred thousand dollars, four and one=
1 8 half percent.
1 9 c. On all taxable income exceeding one hundred thousand
1 10 dollars, four and eight-tenths percent.
1 11 Sec. 2. Section 422.5, subsection 1, paragraph j, Code
1 12 2003, is amended to read as follows:
1 13 j. (1) The tax imposed upon the taxable income of a
1 14 nonresident shall be computed by reducing the amount
1 15 determined pursuant to paragraphs "a" through "~~i~~" "c" by the
1 16 amounts of nonrefundable credits under this division and by
1 17 multiplying this resulting amount by a fraction of which the
1 18 nonresident's net income allocated to Iowa, as determined in
1 19 section 422.8, subsection 2, paragraph "a", is the numerator
1 20 and the nonresident's total net income computed under section
1 21 422.7 is the denominator. This provision also applies to
1 22 individuals who are residents of Iowa for less than the entire
1 23 tax year.
1 24 (2) The tax imposed upon the taxable income of a resident
1 25 shareholder in an S corporation which has in effect for the
1 26 tax year an election under subchapter S of the Internal
1 27 Revenue Code and carries on business within and without the
1 28 state may be computed by reducing the amount determined
1 29 pursuant to paragraphs "a" through "~~i~~" "c" by the amounts of
1 30 nonrefundable credits under this division and by multiplying
1 31 this resulting amount by a fraction of which the resident's
1 32 net income allocated to Iowa, as determined in section 422.8,
1 33 subsection 2, paragraph "b", is the numerator and the
1 34 resident's total net income computed under section 422.7 is
1 35 the denominator. If a resident shareholder has elected to
2 1 take advantage of this subparagraph, and for the next tax year
2 2 elects not to take advantage of this subparagraph, the
2 3 resident shareholder shall not reelect to take advantage of
2 4 this subparagraph for the three tax years immediately
2 5 following the first tax year for which the shareholder elected
2 6 not to take advantage of this subparagraph, unless the
2 7 director consents to the reelection. This subparagraph also
2 8 applies to individuals who are residents of Iowa for less than
2 9 the entire tax year.
2 10 This subparagraph shall not affect the amount of the
2 11 taxpayer's checkoff to the Iowa election campaign fund under
2 12 section 56.18, the checkoff for the fish and game fund in
2 13 section 456A.16, the credits from tax provided in sections
2 14 422.10, 422.11A, and 422.12 and the allocation of these
2 15 credits between spouses if the taxpayers filed separate
2 16 returns or separately on combined returns.
2 17 Sec. 3. Section 422.5, subsection 1, paragraph k,
2 18 unnumbered paragraph 1, Code 2003, is amended to read as
2 19 follows:
2 20 There is imposed upon every resident and nonresident of

2 21 this state, including estates and trusts, the greater of the
2 22 tax determined in paragraphs "a" through "c" and "j" or the
2 23 state alternative minimum tax equal to seventy-five percent of
2 24 the maximum state individual income tax rate for the tax year,
2 25 rounded to the nearest one-tenth of one percent, of the state
2 26 alternative minimum taxable income of the taxpayer as computed
2 27 under this paragraph.

2 28 Sec. 4. Section 422.5, subsection 2, Code 2003, is amended
2 29 to read as follows:

2 30 2. However, the tax shall not be imposed on a resident or
2 31 nonresident whose net income, as defined in section 422.7, is
2 32 ~~thirteen fifteen thousand five hundred~~ dollars or less in the
2 33 case of married persons filing jointly or filing separately on
2 34 a combined return, unmarried heads of household, and surviving
2 35 spouses or ~~nine eleven~~ thousand dollars or less in the case of
3 1 all other persons; but in the event that the payment of tax
3 2 under this division would reduce the net income to less than
3 3 ~~thirteen fifteen thousand five hundred~~ dollars or ~~nine eleven~~
3 4 thousand dollars as applicable, then the tax shall be reduced
3 5 to that amount which would result in allowing the taxpayer to
3 6 retain a net income of ~~thirteen fifteen thousand five hundred~~
3 7 dollars or ~~nine eleven~~ thousand dollars as applicable. The
3 8 preceding sentence does not apply to estates or trusts. For
3 9 the purpose of this subsection, the entire net income,
3 10 including any part of the net income not allocated to Iowa,
3 11 shall be taken into account. For purposes of this subsection,
3 12 net income includes all amounts of pensions or other
3 13 retirement income received from any source which is not
3 14 taxable under this division as a result of the government
3 15 pension exclusions in section 422.7, or any other state law.
3 16 If the combined net income of a husband and wife exceeds
3 17 ~~thirteen fifteen thousand five hundred~~ dollars, neither of
3 18 them shall receive the benefit of this subsection, and it is
3 19 immaterial whether they file a joint return or separate
3 20 returns. However, if a husband and wife file separate returns
3 21 and have a combined net income of ~~thirteen fifteen thousand~~
3 22 ~~five hundred~~ dollars or less, neither spouse shall receive the
3 23 benefit of this paragraph, if one spouse has a net operating
3 24 loss and elects to carry back or carry forward the loss as
3 25 provided in section 422.9, subsection 3. A person who is
3 26 claimed as a dependent by another person as defined in section
3 27 422.12 shall not receive the benefit of this subsection if the
3 28 person claiming the dependent has net income exceeding
3 29 ~~thirteen fifteen thousand five hundred~~ dollars or ~~nine eleven~~
3 30 thousand dollars as applicable or the person claiming the
3 31 dependent and the person's spouse have combined net income
3 32 exceeding ~~thirteen fifteen thousand five hundred~~ dollars or
3 33 ~~nine eleven~~ thousand dollars as applicable.

3 34 In addition, if the married persons', filing jointly or
3 35 filing separately on a combined return, unmarried head of
4 1 household's, or surviving spouse's net income exceeds ~~thirteen~~
4 2 ~~fifteen thousand five hundred~~ dollars, the regular tax imposed
4 3 under this division shall be the lesser of the ~~maximum state~~
4 4 ~~individual income tax rate product of eight percent times the~~
4 5 portion of the net income in excess of ~~thirteen fifteen~~
4 6 thousand ~~five hundred~~ dollars or the regular tax liability
4 7 computed without regard to this sentence. Taxpayers electing
4 8 to file separately shall compute the alternate tax described
4 9 in this paragraph using the total net income of the husband
4 10 and wife. The alternate tax described in this paragraph does
4 11 not apply if one spouse elects to carry back or carry forward
4 12 the loss as provided in section 422.9, subsection 3.

4 13 Sec. 5. Section 422.5, subsection 5, Code 2003, is amended
4 14 to read as follows:

4 15 5. Upon determination of the latest cumulative inflation
4 16 factor, the director shall multiply each dollar amount set
4 17 forth in subsection 1, paragraphs "a" through "~~i~~" "c" of this
4 18 section by this cumulative inflation factor, shall round off
4 19 the resulting product to the nearest one dollar, and shall
4 20 incorporate the result into the income tax forms and
4 21 instructions for each tax year.

4 22 Sec. 6. Section 422.11B, Code 2003, is amended to read as
4 23 follows:

4 24 422.11B MINIMUM TAX CREDIT.

4 25 1. There is allowed as a credit against the tax determined
4 26 in section 422.5, subsection 1, paragraphs "a" through "c" and
4 27 "j" for a tax year an amount equal to the minimum tax credit
4 28 for that tax year.

4 29 The minimum tax credit for a tax year is the excess, if
4 30 any, of the adjusted net minimum tax imposed for all prior tax
4 31 years beginning on or after January 1, 1987, over the amount

4 32 allowable as a credit under this section for those prior tax
4 33 years.

4 34 2. The allowable credit under subsection 1 for a tax year
4 35 shall not exceed the excess, if any, of the tax determined in
5 1 section 422.5, subsection 1, paragraphs "a" through "c" and
5 2 "j" over the state alternative minimum tax as determined in
5 3 section 422.5, subsection 1, paragraph "k".

5 4 The net minimum tax for a tax year is the excess, if any,
5 5 of the tax determined in section 422.5, subsection 1,
5 6 paragraph "k" for the tax year over the tax determined in
5 7 section 422.5, subsection 1, paragraphs "a" through "c" and
5 8 "j" for the tax year.

5 9 The adjusted net minimum tax for a tax year is the net
5 10 minimum tax for the tax year reduced by the amount which would
5 11 be the net minimum tax if the only item of tax preference
5 12 taken into account was that described in paragraph (6) of
5 13 section 57(a) of the Internal Revenue Code.

5 14 Sec. 7. INCOME TAX IMPLEMENTATION COMMITTEE.

5 15 1. On or before July 1, 2003, the department of revenue
5 16 and finance, in consultation with the department of
5 17 management, shall initiate and coordinate the establishment of
5 18 an income tax implementation committee and provide staffing
5 19 assistance by the committee. The income tax implementation
5 20 committee shall include representatives of the general
5 21 assembly, the department of revenue and finance, the
5 22 department of management, business tax groups, businesses in
5 23 Iowa, groups representing Iowa taxpayers, certified public
5 24 accountants, members of the general public, and other
5 25 appropriate stakeholders.

5 26 2. The committee shall study and make recommendations
5 27 relating to the imposition of new income tax rates, filing
5 28 threshold, alternative minimum tax, treatment of current
5 29 exemptions, credits, and deductions. The committee shall also
5 30 consider alternate sources of revenue for the general fund of
5 31 the state to replace revenue as a result from general tax
5 32 relief as provided for in this bill, including but not limited
5 33 to, sales and use taxes.

5 34 3. The committee shall submit to the general assembly by
5 35 January 1, 2004, and January 1, 2005, a report for each of
6 1 those years resolving issues in subsection 2, and other
6 2 related issues for implementation of the other provisions in
6 3 this Act.

6 4 Sec. 8. CONTINGENT EFFECTIVE AND APPLICABILITY DATE.

6 5 1. Except as provided in subsection 3, this Act takes
6 6 effect upon ratification of an amendment to the Constitution
6 7 of the State of Iowa requiring a three-fifths majority vote of
6 8 each house of the general assembly in order to pass a bill
6 9 that amends the state income tax or the state sales and use
6 10 taxes by raising the rate or rates of the income tax or sales
6 11 and use taxes.

6 12 2. If this Act takes effect as provided in subsection 1,
6 13 this Act applies to tax years beginning on or after January 1
6 14 following the effective date of this Act.

6 15 3. The section of this Act relating to the establishment
6 16 of the income tax implementation committee, being deemed of
6 17 immediate importance, takes effect upon enactment.

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