

# House File 871 - Reprinted

HOUSE FILE \_\_\_\_\_  
BY COMMITTEE ON WAYS AND MEANS  
(SUCCESSOR TO HF 689)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

## A BILL FOR

1 An Act providing for income tax credits for the cost of  
2 purchasing health insurance coverage by certain small  
3 employers and providing effective and retroactive  
4 applicability dates.  
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
6 TLSB 2242HV 81  
7 av/gg/14

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1 1 Section 1. NEW SECTION. 422.11K SMALL EMPLOYER HEALTH  
1 2 INSURANCE COVERAGE TAX CREDIT.  
1 3 1. The taxes imposed under this division, less the credits  
1 4 allowed under sections 422.12 and 422.12B, shall be reduced by  
1 5 a small employer health insurance coverage tax credit. The  
1 6 tax credit may be claimed by a small employer that purchases  
1 7 health insurance coverage, as defined in section 513B.2, for  
1 8 the small employer's employees and their dependents for the  
1 9 first time. The amount of the tax credit equals one hundred  
1 10 percent of the cost to the small employer of purchasing the  
1 11 first year of the health insurance coverage. The tax credit  
1 12 shall be taken over five tax years as provided in subsection  
1 13 2.  
1 14 2. a. A small employer is entitled to claim twenty  
1 15 percent of the amount of the small employer health insurance  
1 16 coverage tax credit for the first tax year for which the  
1 17 health insurance coverage is purchased and twenty percent of  
1 18 the amount of the credit for each consecutive year thereafter  
1 19 that the small employer continues to purchase health insurance  
1 20 coverage for a total of five tax years. However, any credit  
1 21 in excess of the tax liability for the tax year is  
1 22 nonrefundable but may be credited to the tax liability for the  
1 23 following seven years or until depleted, whichever is the  
1 24 earlier.  
1 25 b. If a small employer elects to take the small employer  
1 26 health insurance coverage tax credit, the small employer shall  
1 27 reduce, by the amount used in the computation of the credit,  
1 28 the deduction for Iowa income tax purposes of the cost of  
1 29 health insurance premiums paid by the employer during the tax  
1 30 year in which the tax credit is computed, that is deductible  
1 31 for federal tax purposes.  
1 32 c. If a small employer that has claimed the small employer  
1 33 health insurance coverage tax credit is merged with another  
1 34 business or is divided into separate businesses, any resulting  
1 35 business which is at least fifteen percent directly or  
2 1 indirectly owned or controlled by the owners or controllers of  
2 2 the original small employer, is entitled to claim any amounts  
2 3 of the small employer health insurance coverage credit that  
2 4 remain so long as the resulting business continues to purchase  
2 5 the health insurance coverage during each tax year for which  
2 6 the credit is claimed.  
2 7 3. An individual may claim a small employer health  
2 8 insurance coverage tax credit allowed a partnership, limited  
2 9 liability company, S corporation, estate, or trust electing to  
2 10 have the income taxed directly to the individual. The amount  
2 11 claimed by the individual shall be based on the pro rata share  
2 12 of the individual's earnings of the partnership, limited  
2 13 liability company, S corporation, estate, or trust.  
2 14 4. a. For the purposes of this section "small employer"  
2 15 means a person actively engaged in business, to which all of  
2 16 the following apply:

2 17 (1) On at least fifty percent of the employer's working  
2 18 days during the preceding year, employed not less than two and  
2 19 not more than twenty full-time equivalent eligible employees.  
2 20 In determining the number of eligible employees, companies  
2 21 which are affiliated companies or which are eligible to file a  
2 22 combined tax return for purposes of state taxation are  
2 23 considered one employer.

2 24 (2) The annualized, average hourly wage paid by the  
2 25 employer is equal to or greater than one hundred percent of  
2 26 the average county wage.

2 27 b. For purposes of this definition, "average county wage"  
2 28 means the annualized, average hourly wage calculated by the  
2 29 department of workforce development which equals the least of  
2 30 the following:

2 31 (1) The annualized, average hourly wage paid by all  
2 32 businesses in the entire county.

2 33 (2) The annualized, average hourly wage paid by all  
2 34 businesses in the county located outside the largest city of  
2 35 the county.

3 1 (3) The annualized, average hourly wage paid by all  
3 2 businesses other than the largest employer in the entire  
3 3 county.

3 4 Sec. 2. Section 422.33, Code 2005, is amended by adding  
3 5 the following new subsection:

3 6 NEW SUBSECTION. 17. a. The taxes imposed under this  
3 7 division shall be reduced by a small employer health insurance  
3 8 coverage tax credit. The tax credit may be claimed by a small  
3 9 employer that purchases health insurance coverage, as defined  
3 10 in section 513B.2, for the small employer's employees and  
3 11 their dependents for the first time. The amount of the tax  
3 12 credit equals one hundred percent of the cost to the small  
3 13 employer of purchasing the first year of such health insurance  
3 14 coverage. The credit shall be taken over five tax years as  
3 15 provided in paragraph "b".

3 16 b. (1) A small employer is entitled to claim twenty  
3 17 percent of the amount of the small employer health insurance  
3 18 coverage tax credit for the first tax year for which the  
3 19 health insurance coverage is purchased and twenty percent of  
3 20 the amount of the credit for each consecutive year thereafter  
3 21 that the small employer continues to purchase the health  
3 22 insurance coverage for a total of five tax years. However,  
3 23 any credit in excess of the tax liability for the tax year is  
3 24 nonrefundable but may be credited to the tax liability for the  
3 25 following seven years or until depleted, whichever is the  
3 26 earlier.

3 27 (2) If a small employer elects to take the small employer  
3 28 health insurance coverage tax credit, the small employer shall  
3 29 reduce, by the amount used in the computation of the credit,  
3 30 the deduction for Iowa income tax purposes of the cost of  
3 31 health insurance premiums paid by the employer during the tax  
3 32 year in which the tax credit is computed, that is deductible  
3 33 for federal tax purposes.

3 34 (3) If a small employer that has claimed the small  
3 35 employer health insurance coverage tax credit is merged with  
4 1 another business or is divided into separate businesses, any  
4 2 resulting business which is at least fifteen percent directly  
4 3 or indirectly owned or controlled by the owners or controllers  
4 4 of the original small employer, is entitled to claim any  
4 5 amounts of the small employer health insurance coverage credit  
4 6 that remain so long as the resulting business continues to  
4 7 purchase the health insurance coverage during each tax year  
4 8 for which the credit is claimed.

4 9 c. (1) For the purposes of this subsection "small  
4 10 employer" means a person actively engaged in business, to  
4 11 which all of the following apply:

4 12 (a) On at least fifty percent of the employer's working  
4 13 days during the preceding year, employed not less than two and  
4 14 not more than twenty full-time equivalent eligible employees.  
4 15 In determining the number of eligible employees, companies  
4 16 which are affiliated companies or which are eligible to file a  
4 17 combined tax return for purposes of state taxation are  
4 18 considered one employer.

4 19 (b) The annualized, average hourly wage paid by the  
4 20 employer is equal to or greater than one hundred percent of  
4 21 the average county wage.

4 22 (2) For purposes of this definition, "average county wage"  
4 23 means the annualized, average hourly wage calculated by the  
4 24 department of workforce development which equals the least of  
4 25 the following:

4 26 (a) The annualized, average hourly wage paid by all  
4 27 businesses in the entire county.

4 28 (b) The annualized, average hourly wage paid by all  
4 29 businesses in the county located outside the largest city of  
4 30 the county.

4 31 (c) The annualized, average hourly wage paid by all  
4 32 businesses other than the largest employer in the entire  
4 33 county.

4 34 Sec. 3. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.

4 35 This Act, being deemed of immediate importance, takes effect  
5 1 upon enactment and applies retroactively to January 1, 2005,  
5 2 for tax years beginning on or after that date.

5 3 HF 871

5 4 av:mg/es/25