

PROVISIONS WITH SIGNIFICANT IMPACT ON TOTAL STATE INCOME TAX RECEIPTS, 1982 - 1983

<u>Provision (effective date)</u>	<u>Impact if Iowa Adopts</u>	<u>Dollar Impact</u>	
		<u>Fiscal '82</u>	<u>Fiscal '83</u>
<u>Accelerated Cost Recovery System for Depreciation</u> (Applies to property first placed in service after December 31, 1980.)	While there is a gain in state revenues due to the reduction in federal tax deductions, it is more than offset by the reduction in taxable income for both individuals and corporations.	\$ -10.0 to -12.0 million	\$ -18.0 -22.0 million*
<u>Corporate Income Tax Rate Reductions</u> (First reduction in 1982 tax year; second reduction for the 1983 tax year.)	Iowa law allows a deduction of 50% of federal taxed liability. The reduced federal tax deduction is expected to result in increases in the state tax revenue.	minimal increase	\$ +100,000
<u>Individual Income Tax Rate Reductions</u> (First of four step reduction effective October 1, 1981.)	Reductions in federal tax liability which are deductible for state taxes will result in an increase in Iowa tax collections.	\$ + 7.0 to +10.0 million	\$ +35.0 to +40.0 million
<u>Reduction in "Marriage Tax Penalty"</u> (First of two step phase-in, effective for income earned in the 1982 tax year.)	The effect of a reduced federal tax deduction for all couples using the provision for federal tax purposes would more than offset the reduction in state taxes attributable to the use of the provision for state purposes, resulting in a net increase in state revenues.**	minimal increase	\$ + 1.0 to + 2.0 million
<u>Revision to Interest and Dividend Exclusion</u> (Effective 1982 tax year)	Iowa tax collections will be increased because of the increase in income subject to taxation. This increase will be modified to an extent by larger federal tax deductions.	none	\$ + 3.0 to + 4.0 million

*While estimates of impact in Iowa are not available for future years, it appears the amount of reduction in state taxes will increase significantly in the years following 1983.

**Under current state law, if the references to the IRS code are simply updated, two-earner couples filing jointly would be permitted such a deduction. Iowa law appears to exclude a similar deduction for married couples filing separately.

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<u>"All Savers" Certificate Interest Exclusion</u> (This exemption applies to certificates issued prior to Jan. 1, 1983 and will be reflected in the tax years 1981 through 1983.)	Income will be reduced resulting in lower tax collections. This reduction will be partially offset by increased Iowa tax collections resulting from reduced federal tax deductions. The net effect will be a reduction in Iowa tax collections.	\$ - 1.0 million*	\$ - 5.0 million*
<u>Allowable Contributions to Individual Retirement Accounts</u> (Effective tax year 1982.)	The reduction in tax revenues resulting from larger adjustments will result in reduced tax collections. Eventually offsetting these partially are the increased Iowa tax collections resulting from the reduced federal tax deductions. The net effect, however, will be a reduction in Iowa tax collections.	minimal reduction*	\$ - 4.5 to - 5.5 million*
<u>Allowable Contributions to Keogh Plans</u> (Effective tax year 1982.)	Iowa tax collections would be reduced because of a reduction in income eligible for taxation. Additionally, reduced federal tax deductions will increase Iowa tax collections partially offsetting the direct tax reductions. The net effect will be a reduction in Iowa tax collections.	minimal reduction	\$ -500,000*

*Estimates of the impact of these provisions are subject to substantial variation as they are dependent on projections of future participation rates.

10/14/81

Utilizing legislative committees and procedures already in place, the following steps should be taken to ensure orderly and early legislative work:

1. Using the Block Grants interim committee as a steering committee, special select subcommittees to develop legislation arising from the impact of both budget and revenue cuts should be established.
2. Special select subcommittees can consist of one Republican and one Democrat from each of eight appropriations subcommittees. The revenue select subcommittee can consist of the chair and ranking member of the Ways and Means committees.
3. Select subcommittees should hold a series of 6 public hearings in the congressional districts by November 20 (following the late October and early November meetings inside the Capitol of the regular subcommittees).

Public hearings should include format to determine

- a) which programs are working in local communities
 - b) the local fiscal condition relative to both budget and revenues; the local perception of property tax impact of cuts
 - c) areas of duplication of services, extent of willingness to trade-off on programs, or combine, or eliminate
 - d) extent of local officials' and individuals' expectations of whether/how state can pick up slack
 - e) suggestions for new ways to meet state policy commitments to individuals, families, local governments.
4. Using legislative public hearings data (gleaned in traditional manner, from bureaucrats in state departments in October appropriations subcommittee meetings, AND direct legislator-to-Iowan public hearings held in the 6 districts, subcommittees should advance proposed legislation by December 15.

A special select committee hearing will:

1. allow the legislature to undertake its responsibility to act based upon direct contact with those who are directly affected (in addition to its usual method of gaining its information from the executive branch).
2. provide the legislature with the necessary expertise to develop alternatives to mitigate human hardship that is made acute by delay.
3. provides a forum for local governments at the time they are preparing their budget and tax askings.
4. save time during the 1982 regular session by giving the federal budget and revenue changes the critical attention that is necessary

REPORT OF THE ADMINISTRATION COMMITTEE
TO THE LEGISLATIVE COUNCIL

October 14, 1981

The Administration Committee recommends the following to the Legislative Council:

1. That the application by the Iowa Arts Council for payment for art work for the renovation of first floor legislative committee rooms in the Capitol Building is rejected. Chapter 304A of the Code has been construed by the House Legal Counsel as not authorizing such payment. In the light of the uncertainty of the law, it is the Committee's recommendation that no payment be made, or agreement executed.

2. The Committee appointed a subcommittee composed of Senators Hultman and Junkins and Representative Menke to monitor the progress and activities concerning the condition of stonework on the Capitol Building. The subcommittee will meet with the Department of General Services and architects and engineers evaluating the project on October 29th. The Committee recommends the Legislative Council approve the payment of any expenses and per diem for subcommittee members.

3. Regarding the study of the department of transportation and various transportation procedures required by Senate File 561 and House File 850 to be conducted by consultants the Committee recommends the Council authorize the formation of an in-house committee of legislative and agency staff to prepare a request for proposals with an early December deadline on bids by contractors so that the Council can make a final decision on the study contract at its December meeting. At that time legislation changing the January 11, 1982 statutory deadline for completion of the study to a date feasible for completion will be prepared for consideration by the Council.

4. The Committee recommends the Council approve payment of per diem and expenses for four legislative members appointed to serve on a Department of Transportation study of primary and secondary road systems. The group has held one meeting thus far and three more are scheduled.

Respectfully submitted,

JAMES BRILES, Chairperson