

set of core indicators that includes, but is not limited to, graduation rate, postsecondary education, and successful employment in Iowa. Annually, the department shall report state data for each indicator in the condition of education report.

c. A requirement that all school districts and accredited nonpublic schools annually report to the department and the local community the district-wide progress made in attaining student achievement goals on the academic and other core indicators and the district-wide progress made in attaining locally established student learning goals. The school districts and accredited nonpublic schools shall demonstrate the use of multiple assessment measures in determining student achievement levels. The school districts and accredited nonpublic schools may report on other locally determined factors influencing student achievement. The school districts and accredited nonpublic schools shall also report to the local community their results by individual attendance center.

Approved May 6, 1998

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## CHAPTER 1177

### TAXATION — MISCELLANEOUS PROVISIONS

*H.F. 2513*

**AN ACT** relating to the individual income tax by eliminating the taxation of certain capital gains and providing special treatment of gains from the sales of businesses to descendants, increasing the amount of pension income excluded, increasing certain personal exemption tax credits, and increasing and expanding the tuition and textbook tax credit, exempting sales and services to certain nonprofit hospitals from the sales, services, and use taxes, and relating to the income eligibility requirements for the homestead property tax credit, mobile home tax credit, or reimbursement for rent constituting property taxes paid, and including effective and prospective and retroactive applicability date provisions.

*Be It Enacted by the General Assembly of the State of Iowa:*

#### DIVISION I CAPITAL GAINS

Section 1. Section 422.7, subsection 21, unnumbered paragraph 1, Code Supplement 1997, is amended to read as follows:

Subtract ~~forty-five percent~~ of the net capital gain from the following:

Sec. 2. Section 422.7, subsection 21, paragraph a, Code Supplement 1997, is amended to read as follows:

a. (1) Net capital gain from the sale of real property used in a business, in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years, or from the sale of a business, as defined in section 422.42, in which the taxpayer was employed or in which the taxpayer materially participated for ten years, as defined in section 469(h) of the Internal Revenue Code, and which has been held for a minimum of ten years. The sale of a business means the sale of all or substantially all of the tangible personal property or service of the business.

However, where the business is sold to individuals who are all lineal descendants of the taxpayer, the taxpayer does not have to have materially participated in the business in order for the net capital gain from the sale to be excluded from taxation.

However, in lieu of the net capital gain deduction in this paragraph and paragraphs "b", "c", and "d", where the business is sold to individuals who are all lineal descendants of the taxpayer, the amount of capital gain from each capital asset may be subtracted in determining net income.

(2) For purposes of this paragraph, "lineal descendant" means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendants of the taxpayer.

Sec. 3. Section 422.7, subsection 21, unnumbered paragraph 2, Code Supplement 1997, is amended by striking the unnumbered paragraph and inserting in lieu thereof the following:

However, to the extent otherwise allowed, the deduction provided in this subsection is not allowed for purposes of computation of a net operating loss in section 422.9, subsection 3, and in computing the income for the taxable year or years for which a net operating loss is deducted.

Sec. 4. EFFECTIVE AND APPLICABILITY DATES. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1998, for tax years beginning on or after that date.

## DIVISION II PENSION INCOME EXCLUSION

Sec. 5. Section 422.7, subsection 34, Code Supplement 1997, is amended to read as follows:

34. For a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under this subsection for the tax year, subtract, to the extent included, the total amount of a governmental or other pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of ~~three~~ five thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of ~~six~~ ten thousand dollars for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or fifty-five years of age or older can only exclude the amount of pension or retirement pay received as a result of the death of the other spouse. A husband and wife filing separate state income tax returns or separately on a combined state return are allowed a combined maximum exclusion under this subsection of up to ten thousand dollars. The ten thousand dollar exclusion shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

Sec. 6. This division of this Act, being deemed of immediate importance, takes effect upon enactment and applies retroactively to January 1, 1998, for tax years beginning on or after that date.

## DIVISION III PERSONAL EXEMPTION CREDIT

Sec. 7. Section 422.12, subsection 1, paragraphs a and b, Code 1997, is amended to read as follows:

a. For an estate or trust, a single individual, or a married person filing a separate return, ~~twenty~~ forty dollars.

b. For a head of household, or a husband and wife filing a joint return, ~~forty~~ eighty dollars.

Sec. 8. This division of this Act applies retroactively to January 1, 1998, for tax years beginning on or after that date.

#### DIVISION IV TUITION TAX CREDIT

Sec. 9. Section 422.12, subsection 2, Code 1997, is amended to read as follows:

2. A tuition credit equal to ~~ten~~ twenty-five percent of the first one thousand dollars which the taxpayer has paid to others for each dependent in grades kindergarten through twelve, for tuition and textbooks of each dependent in attending an elementary or secondary school situated in Iowa, which school is accredited or approved under section 256.11, which is not operated for profit, and which adheres to the provisions of the federal Civil Rights Act of 1964 and chapter 216. As used in this subsection, "textbooks" means books and other instructional materials and equipment used in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state and does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to inculcate those tenets, doctrines, or worship, ~~and does not include.~~ "Textbooks" includes books or materials used for extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or programs of a similar nature. Notwithstanding any other provision, all other credits allowed under this section and section 422.12B shall be deducted before the tuition credit under this subsection. The department, when conducting an audit of a taxpayer's return, shall also audit the tuition tax credit portion of the tax return.

As used in this subsection, "tuition" means any charges for the expenses of personnel, buildings, equipment and materials other than textbooks, and other expenses of elementary or secondary schools which relate to the teaching only of those subjects legally and commonly taught in public elementary and secondary schools in this state and which do not relate to the teaching of religious tenets, doctrines, or worship, the purpose of which is to inculcate those tenets, doctrines, or worship, ~~and which do not.~~ "Tuition" includes those expenses which relate to extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or programs of a similar nature.

Sec. 10. This division of this Act applies retroactively to January 1, 1998, for tax years beginning on or after that date.

#### DIVISION V EXEMPTION FOR NONPROFIT HOSPITALS

Sec. 11. Section 422.45, Code 1997,\* is amended by adding the following new subsection:

NEW SUBSECTION. 52. The gross receipts from the sale or rental of tangible personal property or from services performed, rendered, or furnished to a nonprofit hospital licensed pursuant to chapter 135B to be used in the operation of the hospital.

#### DIVISION VI HOMESTEAD CREDIT, RENT REIMBURSEMENT, AND MOBILE HOME TAX CREDIT

Sec. 12. Section 425.23, subsection 1, Code 1997, is amended to read as follows:

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\* Code Supplement 1997 probably intended

1. a. The tentative credit or reimbursement for a claimant described in section 425.17, subsection 2, paragraph “a” and paragraph “b” if no appropriation is made to the fund created in section 425.40 shall be determined in accordance with the following schedule:

If the household income is:	Percent of property taxes due or rent constituting property taxes paid allowed as a credit or reimbursement:
\$ 0 — 5,999.99.....	100%
6,000 — 6,999.99.....	85
7,000 — 7,999.99.....	70
8,000 — 9,999.99.....	50
10,000 — 11,999.99.....	35
12,000 — 13,999.99.....	25
\$ 0 — 8,499.99.....	100%
8,500 — 9,499.99.....	85
9,500 — 10,499.99.....	70
10,500 — 12,499.99.....	50
12,500 — 14,499.99.....	35
14,500 — 16,499.99.....	25

b. If moneys have been appropriated to the fund created in section 425.40, the tentative credit or reimbursement for a claimant described in section 425.17, subsection 2, paragraph “b”, shall be determined as follows:

(1) If the amount appropriated under section 425.40 plus any supplemental appropriation made for a fiscal year for purposes of this lettered paragraph is at least twenty-seven million dollars, the tentative credit or reimbursement shall be determined in accordance with the following schedule:

If the household income is:	Percent of property taxes due or rent constituting property taxes paid allowed as a credit or reimbursement:
\$ 0 — 5,999.99.....	100%
6,000 — 6,999.99.....	85
7,000 — 7,999.99.....	70
8,000 — 9,999.99.....	50
10,000 — 11,999.99.....	35
12,000 — 13,999.99.....	25
\$ 0 — 8,499.99.....	100%
8,500 — 9,499.99.....	85
9,500 — 10,499.99.....	70
10,500 — 12,499.99.....	50
12,500 — 14,499.99.....	35
14,500 — 16,499.99.....	25

(2) If the amount appropriated under section 425.40 plus any supplemental appropriation made for a fiscal year for purposes of this lettered paragraph is less than twenty-seven million dollars the tentative credit or reimbursement shall be determined in accordance with the following schedule:

If the household income is:	Percent of property taxes due or rent constituting property taxes paid allowed as a credit or reimbursement:
\$ 0 — 5,999.99.....	50%
6,000 — 6,999.99.....	42
7,000 — 7,999.99.....	35
8,000 — 9,999.99.....	25
10,000 — 11,999.99.....	17
12,000 — 13,999.99.....	12
\$ 0 — 8,499.99.....	50%
8,500 — 9,499.99.....	42
9,500 — 10,499.99.....	35
10,500 — 12,499.99.....	25
12,500 — 14,499.99.....	17
14,500 — 16,499.99.....	12

Sec. 13. Section 425.23, subsection 3, paragraph a, Code 1997, is amended to read as follows:

a. A person who is eligible to file a claim for credit for property taxes due and who has a household income of ~~six~~ eight thousand five hundred dollars or less and who has an unpaid special assessment levied against the homestead may file a claim for a special assessment credit with the county treasurer. The department shall provide to the respective treasurers the forms necessary for the administration of this subsection. The claim shall be filed not later than September 30 of each year. Upon the filing of the claim, interest for late payment shall not accrue against the amount of the unpaid special assessment due and payable. The claim filed by the claimant constitutes a claim for credit of an amount equal to the actual amount due upon the unpaid special assessment, plus interest, payable during the fiscal year for which the claim is filed against the homestead of the claimant. However, where the claimant is an individual described in section 425.17, subsection 2, paragraph "b", and the tentative credit is determined according to the schedule in ~~section 425.23, subsection 1, paragraph "b", subparagraph (2), of this section,~~ the claim filed constitutes a claim for credit of an amount equal to one-half of the actual amount due and payable during the fiscal year. The treasurer shall certify to the director of revenue and finance not later than October 15 of each year the total amount of dollars due for claims allowed. The amount of reimbursement due each county shall be paid by the director of revenue and finance by November 15 of each year, drawn upon warrants payable to the respective treasurer. There is appropriated annually from the general fund of the state to the department of revenue and finance an amount sufficient to carry out the provisions of this subsection. The treasurer shall credit any moneys received from the department against the amount of the unpaid special assessment due and payable on the homestead of the claimant.

Sec. 14. Section 425.23, Code 1997, is amended by adding the following new subsection:

**NEW SUBSECTION.** 4. a. For the base year beginning in the 1999 calendar year and for each subsequent base year, the dollar amounts set forth in subsections 1 and 3 shall be multiplied by the cumulative adjustment factor for that base year. "Cumulative adjustment factor" means the product of the annual adjustment factor for the 1998 base year and all annual adjustment factors for subsequent base years. The cumulative adjustment factor applies to the base year beginning in the calendar year for which the latest annual adjustment factor has been determined.

b. The annual adjustment factor for the 1998 base year is one hundred percent. For each subsequent base year, the annual adjustment factor equals the annual inflation factor for

the calendar year, in which the base year begins, as computed in section 422.4 for purposes of the individual income tax.

Sec. 15. Section 435.22, subsection 2, Code 1997, is amended to read as follows:

2. If the owner of the home is an Iowa resident, has attained the age of twenty-three years on or before December 31 of the base year, and has an income when included with that of a spouse which is less than ~~six~~ eight thousand ~~five~~ hundred dollars per year, the annual tax shall not be imposed on the home. If the income is ~~six~~ eight thousand ~~five~~ hundred dollars or more but less than ~~fourteen~~ sixteen thousand ~~five~~ hundred dollars, the annual tax shall be computed as follows:

If the Household Income is:	Annual Tax Per Square Foot:
<del>\$ 6,000 — 6,999.99</del> .....	<del>3.0 cents</del>
<del>7,000 — 7,999.99</del> .....	<del>6.0</del>
<del>8,000 — 9,999.99</del> .....	<del>10.0</del>
<del>10,000 — 11,999.99</del> .....	<del>13.0</del>
<del>12,000 — 13,999.99</del> .....	<del>15.0</del>
<u>\$ 8,500 — 9,499.99</u> .....	<u>3.0 cents</u>
<u>9,500 — 10,499.99</u> .....	<u>6.0</u>
<u>10,500 — 12,499.99</u> .....	<u>10.0</u>
<u>12,500 — 14,499.99</u> .....	<u>13.0</u>
<u>14,500 — 16,499.99</u> .....	<u>15.0</u>

For purposes of this subsection "income" means income as defined in section 425.17, subsection 7, and "base year" means the calendar year preceding the year in which the claim for a reduced rate of tax is filed. The home reduced rate of tax shall only be allowed on the home in which the claimant is residing at the time in which the claim for a reduced rate of tax is filed.

Beginning with the 1998 base year, the income dollar amounts set forth in this subsection shall be multiplied by the cumulative adjustment factor for that base year as determined in section 425.23, subsection 4.

Sec. 16. APPLICABILITY. This division of this Act applies to claims for credit for property taxes due, claims for reimbursement for rent constituting property taxes paid, and claims for credit for mobile home taxes due filed on or after January 1, 1999.

Approved May 6, 1998