

**Senate File 2220 - Introduced**

SENATE FILE 2220

BY CHAPMAN and ANDERSON

**A BILL FOR**

1 An Act relating to state financing involving the state  
2 general fund expenditure limitation by revising calculation  
3 requirements for the limitation, increasing reserve fund  
4 balances, creating a safety net fund, creating an Iowa  
5 personal income tax rate reduction fund, making transfers,  
6 and providing for related state personal income tax rate  
7 reductions, and including effective and applicability dates.  
8 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 8.54, subsection 1, Code 2014, is amended  
2 by adding the following new paragraphs:

3 NEW PARAGRAPH. *Ob.* "Iowa wage and salary component" means  
4 the wage and salary component of the quarterly state personal  
5 income table for Iowa issued by the bureau of economic analysis  
6 of the United States department of commerce. For the purposes  
7 of this paragraph and paragraph "c", "quarter" means the  
8 calendar year quarter identified in the table issued by the  
9 bureau.

10 NEW PARAGRAPH. *c.* "Wage and salary growth factor" means  
11 one-half of the percentage increase, if any, in the average  
12 of the second quarter Iowa wage and salary component issued  
13 immediately prior to the meeting of the revenue estimating  
14 conference held by December 15 in accordance with section  
15 8.22A, subsection 3, and the Iowa wage and salary components  
16 for the three quarters immediately preceding such second  
17 quarter component, as compared to the average of the four  
18 quarters of the Iowa wage and salary component immediately  
19 preceding the oldest quarter used to calculate the first  
20 average.

21 Sec. 2. Section 8.54, subsection 2, Code 2014, is amended  
22 to read as follows:

23 2. a. There is created a state general fund expenditure  
24 limitation for each fiscal year calculated as provided in  
25 this section. An expenditure limitation shall be used for  
26 the portion of the budget process commencing on the date the  
27 revenue estimating conference agrees to a revenue estimate for  
28 the following fiscal year in accordance with section 8.22A,  
29 subsection 3, and ending with the governor's final approval  
30 or disapproval of the appropriations bills applicable to that  
31 fiscal year that were passed prior to July 1 of that fiscal  
32 year in a regular or extraordinary legislative session.

33 b. A wage and salary growth factor for the following  
34 fiscal year shall be calculated jointly by the department of  
35 management and the legislative services agency for use in the

1 budget process for the following fiscal year in accordance with  
2 this section. The wage and salary growth factor calculation  
3 for the following fiscal year shall be issued concurrently  
4 with the meeting of the revenue estimating conference held by  
5 December 15 in which the estimates used to develop the adjusted  
6 revenue estimate for the following fiscal year are agreed to  
7 by the conference.

8 Sec. 3. Section 8.54, subsection 3, Code 2014, is amended  
9 to read as follows:

10 3. Except as otherwise provided in this section, the state  
11 general fund expenditure limitation for a fiscal year shall be  
12 the lesser of the following amounts:

13 a. ~~ninety-nine~~ Ninety-nine percent of the adjusted revenue  
14 estimate for the fiscal year.

15 b. The percentage derived from adding to one hundred percent  
16 the wage and salary growth factor calculated for the fiscal  
17 year times the final state general fund expenditure limitation  
18 for the prior fiscal year.

19 Sec. 4. Section 8.54, subsection 5, Code 2014, is amended by  
20 striking the subsection.

21 Sec. 5. Section 8.55, subsection 2, Code 2014, is amended  
22 to read as follows:

23 2. The maximum balance of the fund is the amount equal to  
24 two and one-half percent of the adjusted revenue estimate for  
25 the fiscal year. If the amount of moneys in the Iowa economic  
26 emergency fund is equal to the maximum balance, moneys in  
27 excess of this amount shall be distributed as follows in the  
28 following order:

29 a. The initial excess, not to exceed the amount necessary  
30 for the safety net fund to reach its maximum balance of two  
31 percent of the adjusted revenue estimate for the fiscal year,  
32 shall be transferred to the safety net fund.

33 b. The remainder of the excess, not to exceed one percent  
34 of the adjusted revenue estimate, shall be transferred to the  
35 secondary road fund.

1 c. The remainder of the excess, not to exceed the first  
2 sixty million dollars of the difference between the actual net  
3 revenue for the general fund of the state for the fiscal year  
4 and the adjusted revenue estimate for the fiscal year, shall be  
5 transferred to the taxpayers trust fund.

6 ~~b.~~ d. The remainder of the excess, if any, shall be  
7 transferred to the ~~general fund of the state~~ Iowa personal  
8 income tax rate reduction fund created in section 8.57G.

9 Sec. 6. NEW SECTION. 8.57G Iowa personal income tax rate  
10 reduction fund.

11 1. An Iowa personal income tax rate reduction fund is  
12 created. The fund shall be separate from the general fund of  
13 the state and the balance in the fund shall not be considered  
14 part of the balance of the general fund of the state. The  
15 moneys credited to the fund are not subject to section 8.33 and  
16 shall not be transferred, used, obligated, appropriated, or  
17 otherwise encumbered except as provided in this section.

18 2. *a.* Moneys in the Iowa personal income tax rate reduction  
19 fund shall only be used pursuant to appropriations or transfers  
20 made by the general assembly for tax relief.

21 *b.* No later than June 30 in each fiscal year the entire  
22 balance of the Iowa personal income tax rate reduction fund, if  
23 any, is transferred to the general fund of the state.

24 *c.* The moneys transferred to the general fund of the state  
25 in accordance with paragraph "b" shall not be considered new  
26 revenue for purposes of the state general fund expenditure  
27 limitation under section 8.54 but instead shall be considered  
28 as replacing a like amount included in the expenditure  
29 limitation for the fiscal year in which the transfer is made.

30 3. *a.* Moneys in the Iowa personal income tax rate reduction  
31 fund may be used for cash flow purposes during a fiscal year  
32 provided that any moneys so allocated are returned to the fund  
33 by the end of that fiscal year.

34 *b.* Except as provided in section 8.58, the Iowa personal  
35 income tax rate reduction fund shall be considered a special

1 account for the purposes of section 8.53 in determining the  
2 cash position of the general fund of the state for the payment  
3 of state obligations.

4 4. Notwithstanding section 12C.7, subsection 2, interest or  
5 earnings on moneys deposited in the Iowa personal income tax  
6 rate reduction fund shall be credited to the fund.

7 **Sec. 7. NEW SECTION. 8.57H Safety net fund.**

8 1. A safety net fund is created. The fund shall be separate  
9 from the general fund of the state and the balance in the fund  
10 shall not be considered part of the balance of the general fund  
11 of the state. The moneys credited to the fund are not subject  
12 to section 8.33 and shall not be transferred, used, obligated,  
13 appropriated, or otherwise encumbered except as provided in  
14 this section.

15 2. Moneys in the safety net fund shall only be used pursuant  
16 to appropriations or transfers made by the general assembly  
17 to augment appropriations made for important education,  
18 employment, health, human services, and other programs to aid  
19 individuals and families with low income.

20 3. *a.* Moneys in the safety net fund may be used for cash  
21 flow purposes during a fiscal year provided that any moneys so  
22 allocated are returned to the fund by the end of that fiscal  
23 year.

24 *b.* Except as provided in section 8.58, the safety net fund  
25 shall be considered a special account for the purposes of  
26 section 8.53 in determining the cash position of the general  
27 fund of the state for the payment of state obligations.

28 4. Notwithstanding section 12C.7, subsection 2, interest  
29 or earnings on moneys deposited in the safety net fund shall  
30 be credited to the fund.

31 **Sec. 8.** Section 8.58, Code 2014, is amended to read as  
32 follows:

33 **8.58 Exemption from automatic application.**

34 1. ~~To the extent that moneys appropriated under section~~  
35 ~~8.57 do not result in moneys being credited to the general fund~~

1 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated  
2 under section 8.57 and moneys contained in the cash reserve  
3 fund, rebuild Iowa infrastructure fund, environment first  
4 fund, Iowa economic emergency fund, taxpayers trust fund,  
5 ~~and state bond repayment fund, Iowa personal income tax rate~~  
6 reduction fund, and safety net fund shall not be considered  
7 in the application of any formula, index, or other statutory  
8 triggering mechanism which would affect appropriations,  
9 payments, or taxation rates, contrary provisions of the Code  
10 notwithstanding. To the extent that moneys projected to be  
11 transferred from the Iowa personal income tax rate reduction  
12 fund to the general fund of the state pursuant to section 8.57G  
13 replace revenues reduced pursuant to section 422.5, subsection  
14 1, paragraph "k", such moneys reduction shall not be considered  
15 by such arbitrator or in such negotiations in the application  
16 of such mechanisms that affect appropriations, payments, or  
17 taxation rates.

18 2. ~~To the extent that moneys appropriated under section~~  
19 ~~8.57 do not result in moneys being credited to the general fund~~  
20 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated  
21 under section 8.57 and moneys contained in the cash reserve  
22 fund, rebuild Iowa infrastructure fund, environment first  
23 fund, Iowa economic emergency fund, taxpayers trust fund,  
24 ~~and state bond repayment fund, Iowa personal income tax rate~~  
25 reduction fund, and safety net fund shall not be considered  
26 by an arbitrator or in negotiations under chapter 20. To the  
27 extent that moneys projected to be transferred from the Iowa  
28 personal income tax rate reduction fund to the general fund of  
29 the state pursuant to section 8.57G replace revenues reduced  
30 pursuant to section 422.5, subsection 1, paragraph "k", such  
31 moneys reduction shall not be considered by such arbitrator or  
32 in such negotiations in the application of such mechanisms that  
33 affect appropriations, payments, or taxation rates.

34 Sec. 9. Section 422.5, subsection 1, Code 2014, is amended  
35 by adding the following new paragraph:

1     NEW PARAGRAPH. *k.* For the tax year beginning January 1  
2 immediately preceding July 1 of any fiscal year in which a  
3 transfer is made to the Iowa personal income tax rate reduction  
4 fund pursuant to section 8.57G, subsection 2, paragraph "b",  
5 each rate in paragraphs "a" through "i" shall be reduced, and  
6 rounded to the nearest one-hundredth of one percent, by the  
7 percentage that the amount transferred during the fiscal year  
8 to the Iowa personal income tax rate reduction fund bears  
9 to the actual net revenue for the general fund of the state  
10 for the fiscal year immediately preceding the fiscal year in  
11 which such transfer was made to the Iowa personal income tax  
12 rate reduction fund. A tax rate reduction provided in this  
13 paragraph only applies to the tax year which is the subject  
14 of the rate reduction and shall not effect tax rates in any  
15 successive tax year. The department shall draft the income tax  
16 form for any tax year in which rates are reduced under this  
17 paragraph to provide information to taxpayers necessary to  
18 calculate the tax due.

19     Sec. 10. Section 422.5, subsection 2, paragraph a, Code  
20 2014, is amended to read as follows:

21     *a.* There is imposed upon every resident and nonresident  
22 of this state, including estates and trusts, the greater of  
23 the tax determined in subsection 1, paragraphs "a" through "j"  
24 "k", or the state alternative minimum tax equal to seventy-five  
25 percent of the maximum state individual income tax rate for the  
26 tax year, rounded to the nearest one-tenth of one percent, of  
27 the state alternative minimum taxable income of the taxpayer as  
28 computed under this subsection.

29     Sec. 11. Section 422.11B, Code 2014, is amended to read as  
30 follows:

31     **422.11B Minimum tax credit.**

32     1. *a.* There is allowed as a credit against the tax  
33 determined in section 422.5, subsection 1, paragraphs "a"  
34 through "j" "k" for a tax year an amount equal to the minimum  
35 tax credit for that tax year.

1     *b.* The minimum tax credit for a tax year is the excess,  
2 if any, of the net minimum tax imposed for all prior tax  
3 years beginning on or after January 1, 1987, over the amount  
4 allowable as a credit under this section for those prior tax  
5 years.

6     2. *a.* The allowable credit under subsection 1 for a tax  
7 year shall not exceed the excess, if any, of the tax determined  
8 in section 422.5, subsection 1, paragraphs "*a*" through "~~*j*~~" "*k*"  
9 over the state alternative minimum tax as determined in section  
10 422.5, subsection 2.

11    *b.* The net minimum tax for a tax year is the excess, if any,  
12 of the tax determined in section 422.5, subsection 2, for the  
13 tax year over the tax determined in section 422.5, subsection  
14 1, paragraphs "*a*" through "~~*j*~~" "*k*" for the tax year.

15    Sec. 12. Section 422.16, subsection 1, paragraph a, Code  
16 2014, is amended to read as follows:

17    *a.* Every withholding agent and every employer as defined  
18 in this chapter and further defined in the Internal Revenue  
19 Code, with respect to income tax collected at source, making  
20 payment of wages to a nonresident employee working in Iowa,  
21 or to a resident employee, shall deduct and withhold from the  
22 wages an amount which will approximate the employee's annual  
23 tax liability on a calendar year basis, calculated on the  
24 basis of tables to be prepared by the department and schedules  
25 or percentage rates, based on the wages, to be prescribed by  
26 the department, and calculated without regard to the rate  
27 reductions provided in section 422.5, subsection 1, paragraph  
28 "*k*". Every employee or other person shall declare to the  
29 employer or withholding agent the number of the employee's  
30 or other person's personal allowances to be used in applying  
31 the tables and schedules or percentage rates. However, no  
32 greater number of allowances may be declared by the employee  
33 or other person than the number to which the employee or other  
34 person is entitled except as allowed under sections 3402(m)(1)  
35 and 3402(m)(3) of the Internal Revenue Code and as allowed



1 for the child and dependent care credit provided in section  
2 422.12C. The claiming of allowances in excess of entitlement  
3 is a serious misdemeanor.

4 Sec. 13. EFFECTIVE DATE. This Act takes effect July 1,  
5 2015.

6 Sec. 14. APPLICABILITY. The following provisions of this  
7 Act are first applicable to calculate the state general fund  
8 expenditure limitation for the fiscal year beginning July 1,  
9 2015:

10 1. The sections amending section 8.54.

11 2. The sections amending section 8.55.

12 EXPLANATION

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

15 This bill relates to the state general fund expenditure  
16 limitation by revising calculation requirements for the  
17 limitation, creating an Iowa personal income tax rate reduction  
18 fund, making transfers, and providing for related state  
19 personal income tax rate reductions.

20 Code section 8.54, relating to the state general fund  
21 expenditure limitation, is amended to provide an additional  
22 method for calculating the limitation. Under current law,  
23 the limitation is 99 percent of the adjusted revenue estimate  
24 for the following fiscal year based on an estimate approved  
25 by the revenue estimating conference in a meeting held by  
26 December 15. The new calculation method in the bill is based  
27 on the growth in the average wage and salary component of the  
28 quarterly state personal income table for Iowa issued by the  
29 bureau of economic analysis of the United States department of  
30 commerce. Under the new method, the department of management  
31 and the legislative services agency are directed to apply the  
32 component issued for the quarters of a two-year period to  
33 jointly calculate a wage and salary growth factor percentage.  
34 One-half of this percentage amount, combined with 100 percent,  
35 is applied to the amount of the state general fund expenditure

1 limitation for the prior fiscal year (fiscal year in progress).  
2 The lesser amount identified by the two methods is required to  
3 be used as the state general fund expenditure limitation in the  
4 budget process for the following fiscal year.

5 Under current law, if a surplus is anticipated for the  
6 general fund of the state at the close of a fiscal year, any  
7 excess remaining, after the surplus is applied to bring state  
8 reserve funds to their maximum balances, is transferred back  
9 to the state general fund for the following fiscal year. The  
10 original state general fund expenditure limitation for that  
11 following fiscal year is required to be readjusted to reflect  
12 the amount of excess anticipated to be transferred. The bill  
13 repeals the current law requirements for the excess in Code  
14 sections 8.54(5) and 8.55(2) and instead requires the excess  
15 to be transferred in the following order: first to the safety  
16 net fund created by the bill, up to the maximum balance for  
17 the safety net fund which is established as 2 percent of the  
18 adjusted revenue estimate for the fiscal year; next, to the  
19 secondary road fund in an amount of up to 1 percent of the  
20 adjusted revenue estimate for the fiscal year; next, to the  
21 taxpayer trust fund, up to the maximum amount specified in  
22 current law; and the entire remainder to the personal income  
23 tax rate reduction fund created by the bill.

24 New Code section 8.57G creates an Iowa personal income tax  
25 reduction fund separate from the general fund. Moneys in the  
26 fund can only be used pursuant to appropriations or transfers  
27 made by the general assembly for tax relief and for temporary  
28 cash flow purposes.

29 New Code section 8.57H creates a safety net fund separate  
30 from the general fund. Moneys in the fund can only be used  
31 pursuant to appropriations or transfers made by the general  
32 assembly to augment appropriations made for important  
33 education, employment, health, human services, and other  
34 programs to aid individuals and families with low income.

35 Moneys in the new funds are treated similarly to other

1 reserve funds under Code section 8.58 and exempted from  
2 automatic application in triggering mechanisms which affect  
3 appropriations, payments, or taxation rates and cannot be  
4 considered by an arbitrator or in collective bargaining  
5 negotiations under Code chapter 20.

6 Moneys transferred to the Iowa personal income tax rate  
7 reduction fund are required to be transferred to the general  
8 fund of the state by the end of the same fiscal year and treated  
9 as a replacement of revenue resulting from the individual  
10 income tax rate reduction provided for in the bill.

11 For tax years beginning January 1 immediately preceding July  
12 1 of a fiscal year in which a transfer is made to the Iowa  
13 personal income tax rate reduction fund, the rates for each of  
14 the nine tax brackets of the individual income tax are required  
15 to be reduced by the percentage that the amount transferred  
16 to the fund bears to the state's actual net revenue for the  
17 preceding fiscal year. Tax rate reductions only apply for one  
18 tax year and do not affect tax rates in any successive tax  
19 year. Withholding agents and employers are prohibited from  
20 factoring in such an individual income tax rate reduction in  
21 their calculation of appropriate employee withholding amounts  
22 during a tax year. Under the bill, the tax year beginning  
23 January 1, 2016, is the first tax year to which the individual  
24 income tax rate reduction may apply.

25 The bill takes effect July 1, 2015. However, the provisions  
26 affecting calculation of the state general fund expenditure  
27 limitation are first applicable for the budget process for the  
28 fiscal year beginning July 1, 2015 (FY 2015-2016).