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COMMERCE, REGULATION & LABOR

HOUSE FILE 2119
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Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to small employer health insurance income tax
2 credits and providing effective and retroactive applicability
3 dates.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2119

1 Section 1. NEW SECTION. 422.11M SMALL EMPLOYER HEALTH
2 INSURANCE TAX CREDITS.

3 1. The taxes imposed under this division, less the credits
4 allowed under sections 422.12 and 422.12B, shall be reduced by
5 a small employer health insurance tax credit.

6 a. A tax credit may be claimed by a small employer that
7 purchases health insurance coverage, as defined in section
8 513B.2, for the small employer's employees and their
9 dependents for the first time. The amount of the tax credit
10 equals ten percent of the cost to the small employer of
11 purchasing the first year of the health insurance coverage.
12 The tax credit shall be taken over five years. A small
13 employer is entitled to claim twenty percent of the amount of
14 the tax credit for the first tax year for which the health
15 insurance coverage is purchased and twenty percent of the
16 amount of the credit for each consecutive year thereafter that
17 the small employer continues to purchase health insurance
18 coverage for a total of five tax years. However, any credit
19 in excess of the tax liability for the tax year is
20 nonrefundable but may be credited to the tax liability for the
21 following seven years or until depleted, whichever is the
22 earlier.

23 b. A tax credit may be claimed by a small employer that
24 purchases health insurance coverage, as defined in section
25 513B.2, for the small employer's employees and their
26 dependents. The amount of the tax credit equals ten percent
27 of the cost to the small employer of purchasing the health
28 insurance coverage for the tax year for which the credit is
29 taken. However, any credit in excess of the tax liability for
30 the tax year is nonrefundable but may be credited to the tax
31 liability for the following seven years or until depleted,
32 whichever is the earlier. A small employer shall claim this
33 tax credit only once. A small employer that has claimed the
34 tax credit provided under paragraph "a" is not eligible to
35 claim a tax credit under this paragraph.

1 2. If a small employer elects to take a small employer
2 health insurance tax credit, the small employer shall reduce,
3 by the amount used in the computation of the credit, the
4 deduction for Iowa income tax purposes of the cost of the
5 health insurance premiums paid by the employer during the tax
6 year for which the tax credit is computed, that is deductible
7 for federal tax purposes.

8 3. If a small employer that has claimed a small employer
9 health insurance tax credit is merged with another business or
10 is divided into separate businesses, any resulting business
11 which is at least fifteen percent directly or indirectly owned
12 or controlled by the owners or controllers of the original
13 small employer is entitled to claim any amounts of the small
14 employer health insurance tax credit that remain so long as
15 the resulting business continues to purchase the health
16 insurance coverage during each tax year for which the credit
17 is claimed.

18 4. An individual may claim a small employer health
19 insurance tax credit allowed a partnership, limited liability
20 company, S corporation, estate, or trust electing to have the
21 income taxed directly to the individual. The amount claimed
22 by the individual shall be based on the pro rata share of the
23 individual's earnings of the partnership, limited liability
24 company, S corporation, estate, or trust.

25 5. a. For the purposes of this section, "small employer"
26 means a person actively engaged in business who is self-
27 employed or to which all of the following apply:

28 (1) On at least fifty percent of the employer's working
29 days during the preceding year, employed at least two and not
30 more than fifty full-time equivalent eligible employees.

31 In determining the number of eligible employees, companies
32 which are affiliated companies or which are eligible to file a
33 combined tax return for purposes of state taxation are
34 considered one employer.

35 (2) The annualized, average hourly wage paid by the

1 employer is equal to or greater than one hundred percent of
2 the average county wage.

3 b. For purposes of this definition, "average county wage"
4 means the annualized, average hourly wage calculated by the
5 department of workforce development which equals the least of
6 the following:

7 (1) The annualized, average hourly wage paid by all
8 businesses in the entire county.

9 (2) The annualized, average hourly wage paid by all
10 businesses in the county located outside the largest city of
11 the county.

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

15 Sec. 2. Section 422.33, Code Supplement 2005, is amended
16 by adding the following new subsection:

17 NEW SUBSECTION. 20. a. The taxes imposed under this
18 division shall be reduced by small employer health insurance
19 tax credits.

20 (1) A tax credit may be claimed by a small employer that
21 purchases health insurance coverage, as defined in section
22 513B.2, for the small employer's employees and their
23 dependents for the first time. The amount of the tax credit
24 equals ten percent of the cost to the small employer of
25 purchasing the first year of such health insurance coverage.
26 The credit shall be taken over five tax years. A small
27 employer is entitled to claim twenty percent of the amount of
28 the small employer health insurance tax credit for the first
29 tax year for which the health insurance coverage is purchased
30 and twenty percent of the amount of the credit for each
31 consecutive year thereafter that the small employer continues
32 to purchase the health insurance coverage for a total of five
33 tax years. However, any credit in excess of the tax liability
34 for the tax year is nonrefundable but may be credited to the
35 tax liability for the following seven years or until depleted,

1 whichever is the earlier.

2 (2) A tax credit may be claimed by a small employer that
3 purchases health insurance coverage, as defined in section
4 513B.2, for the small employer's employees and their
5 dependents. The amount of the tax credit equals ten percent
6 of the cost to the small employer of purchasing the health
7 insurance coverage for the tax year for which the credit is
8 taken. However, any credit in excess of the tax liability for
9 the tax year is nonrefundable but may be credited to the tax
10 liability for the following seven years or until depleted,
11 whichever is the earlier. A small employer shall claim this
12 tax credit only once. A small employer that has claimed the
13 tax credit provided under paragraph "a" is not eligible to
14 claim a tax credit under this paragraph.

15 b. If a small employer elects to take the small employer
16 health insurance tax credit, the small employer shall reduce,
17 by the purchase amount used in the computation of the credit,
18 the deduction for Iowa income tax purposes of the cost of
19 health insurance premiums paid by the employer during the tax
20 year in which the tax credit is computed, that is deductible
21 for federal tax purposes.

22 c. If a small employer that has claimed the small employer
23 health insurance tax credit is merged with another business or
24 is divided into separate businesses, any resulting business
25 which is at least fifteen percent directly or indirectly owned
26 or controlled by the owners or controllers of the original
27 small employer is entitled to claim any amounts of the small
28 employer health insurance tax credit that remain so long as
29 the resulting business continues to purchase the health
30 insurance coverage during each tax year for which the credit
31 is claimed.

32 d. (1) For the purposes of this subsection, "small
33 employer" means a person actively engaged in business who is
34 self-employed or to which all of the following apply:

35 (a) On at least fifty percent of the employer's working

1 days during the preceding year, employed at least two and not
2 more than fifty full-time equivalent eligible employees. In
3 determining the number of eligible employees, companies which
4 are affiliated companies or which are eligible to file a
5 combined tax return for purposes of state taxation are
6 considered one employer.

7 (b) The annualized, average hourly wage paid by the
8 employer is equal to or greater than one hundred percent of
9 the average county wage.

10 (2) For purposes of this definition, "average county wage"
11 means the annualized, average hourly wage calculated by the
12 department of workforce development which equals the least of
13 the following:

14 (a) The annualized, average hourly wage paid by all
15 businesses in the entire county.

16 (b) The annualized, average hourly wage paid by all
17 businesses in the county located outside the largest city of
18 the county.

19 (c) The annualized, average hourly wage paid by all
20 businesses other than the largest employer in the entire
21 county.

22 Sec. 3. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.
23 This Act, being deemed of immediate importance, takes effect
24 upon enactment and applies retroactively to January 1, 2006,
25 for tax years beginning on or after that date.

26 EXPLANATION

27 This bill provides individual and corporate income tax
28 credits to certain small employers for 10 percent of their
29 cost of purchasing one year of health insurance coverage for
30 their employees and their dependents.

31 A tax credit may be claimed by a small employer that
32 purchases such health insurance coverage for the first time,
33 in the amount of 10 percent of the cost of purchasing the
34 health insurance for the first year. A small employer which
35 claims the credit is allowed to claim 20 percent of the amount

1 of the tax credit for the first tax year the insurance
2 coverage is purchased and 20 percent of the amount of the
3 credit for each consecutive year thereafter that the small
4 employer continues to purchase the health insurance coverage
5 for a total of five tax years.

6 A tax credit may also be claimed by a small employer that
7 has been purchasing such health insurance coverage in the
8 amount of 10 percent of the cost of purchasing such coverage
9 for the tax year for which the credit is taken. A small
10 employer is allowed to claim this credit only once. A small
11 employer that has claimed a tax credit for the cost of
12 providing the first year of such health insurance coverage
13 cannot claim this tax credit.

14 "Small employer" is defined as a person actively engaged in
15 business who is self-employed or who, on at least 50 percent
16 of the employer's working days during the preceding year,
17 employed at least two and not more than 50 full-time
18 equivalent eligible employees and paid those employees an
19 annualized, average hourly wage that is equal to or greater
20 than 100 percent of the average county wage.

21 "Average county wage" is defined to mean the annualized,
22 average hourly wage, calculated by the department of workforce
23 development, which equals the least of the annualized hourly
24 wage paid by all businesses in the entire county, the
25 annualized average hourly wage paid by all businesses in the
26 county located outside the largest city of the county, or the
27 annualized, average hourly wage paid by all businesses other
28 than the largest employer in the county.

29 "Health insurance coverage" is defined to mean benefits
30 consisting of health care provided directly through insurance
31 or reimbursement, or otherwise, and including items and
32 services paid for as health care under a hospital or health
33 service policy or certificate, hospital or health service plan
34 contract, or health maintenance organization contract offered
35 by a carrier.

1 The bill takes effect upon enactment and applies
2 retroactively to January 1, 2006, for tax years beginning on
3 or after that date.

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