

Larson, Ch.  
Eichhorn  
Richardson

Revised HSB 35.1

WAYS AND MEANS

Succeeded By

HOUSE FILE SF (HF) 778

BY (PROPOSED COMMITTEE ON WAYS  
AND MEANS BILL BY  
CHAIRPERSON VAN FOSSEN)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

**A BILL FOR**

1 An Act establishing a small business growth initiative by  
2 adjusting the allocation to Iowa of income earned by an S  
3 corporation for purposes of the state individual income tax  
4 and including a retroactive applicability date provision.

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

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1 Section 1. Section 422.8, subsection 2, paragraph b,  
2 subparagraph (2), Code 2001, is amended to read as follows:

3 (2) Any cash or the value of property distributions which  
4 are made only to the extent that they are paid from income  
5 upon which Iowa income tax has not been paid, as determined  
6 under rules of the director, reduced by ~~fifty-percent-of~~ the  
7 amount of any of these distributions that are made to enable  
8 the shareholder to pay federal income tax on items of income,  
9 loss, and expenses from the corporation.

10 Sec. 2. APPLICABILITY PROVISION. This Act applies  
11 retroactively to January 1, 2001, for tax years beginning on  
12 or after that date.

13 EXPLANATION

14 Under the state individual income tax, resident  
15 shareholders of S corporations doing business within and  
16 without the state are allowed to allocate income between Iowa  
17 and other states in determining their state income tax. As  
18 part of the allocation procedure, under current law, 50  
19 percent of the amount of an S corporation distribution  
20 received by a shareholder, which is used to pay federal income  
21 tax, is not allocated to Iowa. The bill increases this  
22 percentage to 100 percent.

23 The bill applies retroactively to January 1, 2001, for tax  
24 years beginning on or after that date.

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*Substituted for by SF 516*

*5/2/01*

*(P. 1726)* MAR 30 2001

WAYS & MEANS CALENDAR

HOUSE FILE 708

BY COMMITTEE ON WAYS AND MEANS

**WITHDRAWN** (SUCCESSOR TO HSB 35.1)  
*5/2/01*

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

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

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**HOUSE FILE 708**

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**H-1761**

1 Amend House File 708 as follows:

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2 1. Page 1, by striking lines 10 through 12 and  
3 inserting the following:

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4 "Sec. \_\_\_\_ EFFECTIVE AND RETROACTIVE APPLICABILITY  
5 PROVISION. This Act takes effect only if the revenue  
6 estimating conference estimates that, as a result of  
7 the enactment of federal income tax legislation prior  
8 to January 1, 2002, Iowa income tax receipts for the  
9 fiscal year beginning July 1, 2001, will be increased  
10 by \$7.9 million or more over the amount of Iowa income  
11 tax receipts which would have been realized in the  
12 absence of the enactment of such federal income tax  
13 legislation. If this Act takes effect, this Act  
14 applies retroactively to January 1, 2001, for tax  
15 years beginning on or after that date."

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16 2. Title page, line 4, by striking the word "a"  
17 and inserting the following: "an effective and".

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By LARSON of Linn

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**H-1761** FILED APRIL 30, 2001

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*adopted 5/2/01 (P. 1726)*

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*HF 708*

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**HOUSE FILE 708  
FISCAL NOTE**

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A fiscal note for **House File 708** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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House File 708 allows taxpayers who elect to allocate income from S-corporations between Iowa and other states to deduct 100% of federal income taxes paid in determining the share of the S-corporation income that is subject to Iowa income tax. Currently, only 50% of federal income taxes paid may be deducted in determining the amount of S-corporation income that is subject to Iowa income tax. The Bill applies retroactively to January 1, 2001.

**BACKGROUND**

The Department of Revenue and Finance conducted a study of tax year 1998 returns to estimate the amount of deduction taken for federal taxes paid on S-corporation income. The analysis was based on a sample of returns claiming "Other Iowa Credits" on line 54 of the 1998 Iowa Individual Income Tax Long Form IA 1040. Based on the sample, \$8.6 million of S-corporation apportionment credits were estimated to have been claimed. To obtain an estimate of the impact of increasing the deduction for federal income taxes from 50% to 100%, the amount of the credit was reestimated for the 1,121 returns in the sample. With the change in the deduction the reestimated credit amount increased to \$9.4 million.

**ASSUMPTIONS**

1. Tax year 1998 was a typical year relative to the number of taxpayers reporting income from S-corporations and electing to apportion income between Iowa and other states.
2. The share of other credits claimed accounted for by the S-corporation apportionment credit remains relatively constant from year-to-year at approximately 60%.
3. The distribution of S-corporation apportionment credits by amount of the claim and adjusted gross income bracket of the taxpayers remains relatively constant from year-to-year.
4. For tax year 2001 all of the deduction change impact will be realized on the tax return filed in FY 2002.
5. For tax year 2002, 12.5% of the impact will be realized in estimate payments made in FY 2002, 37.5% will be realized in estimate payments made in FY 2003, and 50.0% will be realized on final returns filed in FY 2003.

**FISCAL IMPACT**

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House File 708 will result in a decrease in General Fund revenues equal to \$0.9 million in FY 2002 and \$0.8 million in FY 2003.

SOURCE

Iowa Department of Revenue and Finance

(LSB 3149hv, JWR)

FILED APRIL 2, 2001

BY DENNIS PROUTY, FISCAL DIRECTOR