

JUN 19 2001

WAYS AND MEANS

HOUSE FILE 757

BY VAN FOSSEN, RANTS, SIEGRIST,
 ALONS, ARNOLD, BARRY, BAUDLER,
 BOAL, BODDICKER, BOGGESS, BRADLEY,
 BRAUNS, BROERS, CARROLL, CONNORS,
 CORMACK, DE BOEF, DIX, DOLECHECK,
 DRAKE, EDDIE, EICHHORN, FINCH,
 GARMAN, GIPP, HAHN, HANSEN, HEATON,
 HOFFMAN, HORBACH, HOVERSTEN, HUSEMAN,
 JACOBS, JENKINS, JOCHUM, JOHNSON,
 JONES, KETTERING, KLEMME, LARSON,
 MANTERNACH, MASCHER, MERTZ, METCALF,
 MILLAGE, O'BRIEN, PETERSEN, RAECKER,
 RAYHONS, REKOW, REYNOLDS, ROBERTS,
 SCHRADER, SHEY, SIEVERS, SUKUP, TEIG,
 TYMESON, TYRRELL, VAN ENGELENHOVEN,
 WARNSTADT, and WEIDMAN

HF 757

Special Session
 Passed House, Date 6/19/01 *Special Session*
 Passed Senate, Date 6/19/01
 Vote: Ayes 94 Nays 3 Vote: Ayes 48 Nays 2
 Approved June 28, 2001

A BILL FOR

1 An Act relating to the taxation under the individual income tax
 2 of certain federal tax rebates and including a retroactive
 3 applicability date provision.

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

5
6
7
8

1 Section 1. Section 422.9, Code 2001, as amended by 2001
2 Iowa Acts, Senate File 350, section 22, is amended by adding
3 the following new subsection:

4 NEW SUBSECTION. 6. In determining the amount of deduction
5 for federal income tax under subsection 1 or subsection 2,
6 paragraph "b", for tax years beginning in the 2001 calendar
7 year, the amount of the deduction shall not be adjusted by the
8 amount received during the tax year of the advanced refund of
9 the rate reduction tax credit provided pursuant to the federal
10 Economic Growth and Tax Relief Reconciliation Act of 2001,
11 Pub. L. No. 107-16, and the advanced refund of such credit
12 shall not be subject to taxation under this division.

13 Sec. 2. APPLICABILITY. This Act applies retroactively to
14 January 1, 2001, for tax years beginning on or after that date
15 and before January 1, 2002.

16 EXPLANATION

17 The recently enacted federal Economic Growth and Tax Relief
18 Reconciliation Act of 2001 provides for a federal income tax
19 rebate. Because Iowa individual income tax allows a deduction
20 for federal income tax paid adjusted by any refunds, this tax
21 rebate would be subject to state taxation. This bill provides
22 that the rebate shall not be included in determining the
23 amount of the deduction and shall not be subject to tax. The
24 bill applies retroactively to January 1, 2001, and applies to
25 tax years beginning on or after that date and prior to January
26 1, 2002.

27
28
29
30
31
32
33
34
35

1 Amend House File 757 as follows:

2 1. Page 1, by inserting before line 1 the
3 following:

4 "DIVISION I
5 FEDERAL REBATES"

6 2. Page 1, line 13, by inserting after the word
7 "This" the following: "division of this".

8 3. Page 1, by inserting after line 15 the
9 following:

10 "DIVISION II
11 FEDERAL DEDUCTIBILITY

12 Sec. _____. Section 422.4, subsection 1, paragraphs b
13 and c, Code 2001, are amended to read as follows:

14 b. "Cumulative inflation factor" means the product
15 of the annual inflation factor for the ~~1988~~ 2002
16 calendar year and all annual inflation factors for
17 subsequent calendar years as determined pursuant to
18 this subsection. The cumulative inflation factor
19 applies to all tax years beginning on or after January
20 1 of the calendar year for which the latest annual
21 inflation factor has been determined.

22 c. The annual inflation factor for the ~~1988~~ 2002
23 calendar year is one hundred percent.

24 Sec. _____. Section 422.5, subsection 1, paragraphs
25 a through i, Code 2001, are amended by striking the
26 paragraphs and inserting in lieu thereof the
27 following:

28 a. On all taxable income from zero through eight
29 thousand dollars, one and eighty-five hundredths
30 percent.

31 b. On all taxable income exceeding eight thousand
32 dollars but not exceeding forty thousand dollars, five
33 and three-tenths percent.

34 c. On all taxable income exceeding forty thousand
35 dollars but not exceeding sixty thousand dollars, six
36 and thirty-five hundredths percent.

37 d. On all taxable income exceeding sixty thousand
38 dollars, six and six-tenths percent.

39 Sec. _____. Section 422.5, subsection 1, paragraph
40 j, Code 2001, is amended to read as follows:

41 j- e. (1) The tax imposed upon the taxable
42 income of a nonresident shall be computed by reducing
43 the amount determined pursuant to paragraphs "a"
44 through "i" "d" by the amounts of nonrefundable
45 credits under this division and by multiplying this
46 resulting amount by a fraction of which the
47 nonresident's net income allocated to Iowa, as
48 determined in section 422.8, subsection 2, paragraph
49 "a", is the numerator and the nonresident's total net
50 income computed under section 422.7 is the

1 denominator. This provision also applies to
2 individuals who are residents of Iowa for less than
3 the entire tax year.

4 (2) The tax imposed upon the taxable income of a
5 resident shareholder in an S corporation which has in
6 effect for the tax year an election under subchapter S
7 of the Internal Revenue Code and carries on business
8 within and without the state may be computed by
9 reducing the amount determined pursuant to paragraphs
10 "a" through "i" "d" by the amounts of nonrefundable
11 credits under this division and by multiplying this
12 resulting amount by a fraction of which the resident's
13 net income allocated to Iowa, as determined in section
14 422.8, subsection 2, paragraph "b", is the numerator
15 and the resident's total net income computed under
16 section 422.7 is the denominator. If a resident
17 shareholder has elected to take advantage of this
18 subparagraph, and for the next tax year elects not to
19 take advantage of this subparagraph, the resident
20 shareholder shall not reelect to take advantage of
21 this subparagraph for the three tax years immediately
22 following the first tax year for which the shareholder
23 elected not to take advantage of this subparagraph,
24 unless the director consents to the reelection. This
25 subparagraph also applies to individuals who are
26 residents of Iowa for less than the entire tax year.

27 This subparagraph shall not affect the amount of
28 the taxpayer's checkoff to the Iowa election campaign
29 fund under section 56.18, the checkoff for the fish
30 and game fund in section 456A.16, the credits from tax
31 provided in sections 422.10, 422.11A, and 422.12 and
32 the allocation of these credits between spouses if the
33 taxpayers filed separate returns or separately on
34 combined returns.

35 Sec. _____. Section 422.5, subsection 1, paragraph
36 k, Code 2001, is amended by relettering the paragraph
37 as paragraph f.

38 Sec. _____. Section 422.5, subsection 1, paragraph
39 k, unnumbered paragraph 1, Code 2001, is amended to
40 read as follows:

41 There is imposed upon every resident and
42 nonresident of this state, including estates and
43 trusts, the greater of the tax determined in
44 paragraphs "a" through "j" "e" or the state
45 alternative minimum tax equal to seventy-five percent
46 of the maximum state individual income tax rate for
47 the tax year, rounded to the nearest one-tenth of one
48 percent, of the state alternative minimum taxable
49 income of the taxpayer as computed under this
50 paragraph.

1 Sec. _____. Section 422.5, subsection 5, Code 2001,
2 is amended to read as follows:

3 5. Upon determination of the latest cumulative
4 inflation factor, the director shall multiply each
5 dollar amount set forth in subsection 1, paragraphs
6 "a" through "d" of this section by this cumulative
7 inflation factor, shall round off the resulting
8 product to the nearest one dollar, and shall
9 incorporate the result into the income tax forms and
10 instructions for each tax year.

11 Sec. _____. Section 422.8, subsection 2, paragraph
12 a, Code 2001, is amended to read as follows:

13 a. Nonresident's net income allocated to Iowa is
14 the net income, or portion of net income, which is
15 derived from a business, trade, profession, or
16 occupation carried on within this state or income from
17 any property, trust, estate, or other source within
18 Iowa. However, income derived from a business, trade,
19 profession, or occupation carried on within this state
20 and income from any property, trust, estate, or other
21 source within Iowa shall not include distributions
22 from pensions, including defined benefit or defined
23 contribution plans, annuities, individual retirement
24 accounts, and deferred compensation plans or any
25 earnings attributable thereto so long as the
26 distribution is directly related to an individual's
27 documented retirement and received while the
28 individual is a nonresident of this state. If a
29 business, trade, profession, or occupation is carried
30 on partly within and partly without the state, only
31 the portion of the net income which is fairly and
32 equitably attributable to that part of the business,
33 trade, profession, or occupation carried on within the
34 state is allocated to Iowa for purposes of section
35 422.5, subsection 1, paragraph "j" "e", and section
36 422.13 and income from any property, trust, estate, or
37 other source partly within and partly without the
38 state is allocated to Iowa in the same manner, except
39 that annuities, interest on bank deposits and
40 interest-bearing obligations, and dividends are
41 allocated to Iowa only to the extent to which they are
42 derived from a business, trade, profession, or
43 occupation carried on within the state.

44 Sec. _____. Section 422.8, subsection 4, Code 2001,
45 is amended to read as follows:

46 4. The amount of minimum tax paid to another state
47 or foreign country by a resident taxpayer of this
48 state from preference items derived from sources
49 outside of Iowa shall be allowed as a credit against
50 the tax computed under this division except that the

1 credit shall not exceed what the amount of state
2 alternative minimum tax would have been on the same
3 preference items which were taxed by the other state
4 or foreign country. The limitation on this credit
5 shall be computed according to the following formula:
6 The total of preference items earned outside of Iowa
7 and taxed by another state or foreign country shall be
8 divided by the total of preference items of the
9 resident taxpayer of Iowa. In computing this
10 quotient, those items excludable under section 422.5,
11 subsection 1, paragraph "k" "f", subparagraph (1)
12 shall not be used in computing the preference items.
13 This quotient multiplied times the net state
14 alternative minimum tax as determined in section
15 422.5, subsection 1, paragraph "k" "f" on the total of
16 preference items as if entirely earned in Iowa shall
17 be the maximum tax credit against the Iowa alternative
18 minimum tax. However, the maximum tax credit will not
19 be allowed to the extent that the minimum tax imposed
20 by the other state or foreign country is less than the
21 maximum tax credit computed above.

22 Sec. _____. Section 422.9, subsection 1, Code 2001,
23 as amended by 2001 Iowa Acts, Senate File 350, section
24 22, is amended to read as follows:

25 1. An optional standard deduction, after deduction
26 of federal income tax, equal to one thousand two
27 hundred thirty dollars for a married person who files
28 separately or a single person or equal to three
29 thousand thirty dollars for a husband and wife who
30 file a joint return, a surviving spouse, or an
31 unmarried head of household. The optional standard
32 deduction shall not exceed the amount remaining after
33 deduction of the federal income tax. The amount of
34 federal income taxes deducted shall not exceed the
35 amount as computed under subsection 2, paragraph "b".

36 Sec. _____. Section 422.9, subsection 2, paragraph
37 b, Code 2001, as amended by 2001 Iowa Acts, Senate
38 File 350, section 22, is amended by striking the
39 paragraph and inserting in lieu thereof the following:

40 b. Add the amount of federal income taxes paid or
41 accrued, as the case may be, to the extent the federal
42 tax payment is for a tax year beginning prior to
43 January 1, 2002. Subtract the amount of federal
44 income tax refunds received in a tax year to the
45 extent that the federal income tax was deducted on an
46 Iowa individual income tax return for a tax year
47 beginning prior to January 1, 2002.

48 Sec. _____. Section 422.11B, Code 2001, is amended
49 to read as follows:

50 422.11B MINIMUM TAX CREDIT.

1 1. There is allowed as a credit against the tax
2 determined in section 422.5, subsection 1, paragraphs
3 "a" through "j" "e" for a tax year an amount equal to
4 the minimum tax credit for that tax year.

5 The minimum tax credit for a tax year is the
6 excess, if any, of the adjusted net minimum tax
7 imposed for all prior tax years beginning on or after
8 January 1, 1987, over the amount allowable as a credit
9 under this section for those prior tax years.

10 2. The allowable credit under subsection 1 for a
11 tax year shall not exceed the excess, if any, of the
12 tax determined in section 422.5, subsection 1,
13 paragraphs "a" through "j" "e" over the state
14 alternative minimum tax as determined in section
15 422.5, subsection 1, paragraph "k" "f".

16 The net minimum tax for a tax year is the excess,
17 if any, of the tax determined in section 422.5,
18 subsection 1, paragraph "k" "f" for the tax year over
19 the tax determined in section 422.5, subsection 1,
20 paragraphs "a" through "j" "e" for the tax year.

21 The adjusted net minimum tax for a tax year is the
22 net minimum tax for the tax year reduced by the amount
23 which would be the net minimum tax if the only item of
24 tax preference taken into account was that described
25 in paragraph (6) of section 57(a) of the Internal
26 Revenue Code.

27 Sec. _____. Section 422.13, subsection 1, paragraph
28 c, Code 2001, as amended by 2001 Iowa Acts, Senate
29 File 140, section 7, is amended to read as follows:

30 c. However, if that part of the net income of a
31 nonresident which is allocated to Iowa pursuant to
32 section 422.8, subsection 2, is less than one thousand
33 dollars the nonresident is not required to make and
34 sign a return except when the nonresident is subject
35 to the state alternative minimum tax imposed pursuant
36 to section 422.5, subsection 1, paragraph "k" "f".

37 Sec. _____. Section 422.13, subsection 1A, Code
38 2001, as amended by 2001, Iowa Acts, Senate File 140,
39 section 7, is amended to read as follows:

40 1A. Notwithstanding any other provision in this
41 section, a resident of this state is not required to
42 make and file a return if the person's net income is
43 equal to or less than the appropriate dollar amount
44 listed in section 422.5, subsection 2, upon which tax
45 is not imposed. A nonresident of this state is not
46 required to make and file a return if the person's
47 total net income in section 422.5, subsection 1,
48 paragraph "j" "e", is equal to or less than the
49 appropriate dollar amount provided in section 422.5,
50 subsection 2, upon which tax is not imposed. For

1 purposes of this subsection, the amount of a lump sum
2 distribution subject to separate federal tax shall be
3 included in net income for purposes of determining if
4 a resident is required to file a return and the
5 portion of the lump sum distribution that is allocable
6 to Iowa is included in total net income for purposes
7 of determining if a nonresident is required to make
8 and file a return.

9 Sec. _____. Section 422.21, unnumbered paragraph 5,
10 Code 2001, is amended to read as follows:

11 The director shall determine for the ~~1989~~ 2003
12 calendar year and each subsequent calendar year the
13 annual and cumulative inflation factors for each
14 calendar year to be applied to tax years beginning on
15 or after January 1 of that calendar year. The
16 director shall compute the new dollar amounts as
17 specified to be adjusted in section 422.5 by the
18 latest cumulative inflation factor and round off the
19 result to the nearest one dollar. The annual and
20 cumulative inflation factors determined by the
21 director are not rules as defined in section 17A.2,
22 subsection 11. The director shall determine for the
23 1990 calendar year and each subsequent calendar year
24 the annual and cumulative standard deduction factors
25 to be applied to tax years beginning on or after
26 January 1 of that calendar year. The director shall
27 compute the new dollar amounts of the standard
28 deductions specified in section 422.9, subsection 1,
29 by the latest cumulative standard deduction factor and
30 round off the result to the nearest ten dollars. The
31 annual and cumulative standard deduction factors
32 determined by the director are not rules as defined in
33 section 17A.2, subsection 11.

34 Sec. _____. EFFECTIVE AND APPLICABILITY DATES. This
35 Act takes effect January 1, 2002, for tax years
36 beginning on or after that date."

37 4. Title page, by striking lines 1 through 3 and
38 inserting the following: "An Act relating to the
39 individual income tax by exempting from tax certain
40 federal tax rebates, eliminating the deduction for
41 federal income taxes paid, decreasing the tax rates,
42 and including effective and applicability date
43 provisions."
44
45
46

47

SHOULTZ of Black Hawk
48
49
50

1 HATCH of Polk
2
3
4
5 FALLO of Polk
6
7
8
9 FREVERT of Palo Alto
10
11
12
13 FOEGE of Linn
14
15
16
17 DOTZLER of Black Hawk
18
19
20
21 OSTERHAUS of Jackson
22
23
24
25 MURPHY of Dubuque
26
27
28
29 RICHARDSON of Warren
30
31
32
33 LENSING of Johnson
34
35
36
37 GREIMANN of Story
38
39
40
41 MASCHER of Johnson
42
43
44
45 KUHN of Floyd
46
47
48
49 WITT of Black Hawk
50

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

JOCHUM of Dubuque

H. 2049 - Nat Harmonie
6/29/01

Special
Session

REVISED

STATE OF IOWA
FISCAL NOTE

LSB No. 3739YC
Staff ID. JWR

A fiscal note for House File 757 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.

House File 757 exempts rebates received by taxpayers due to recent federal legislation which advance-refunds tax year 2001 taxes equivalent to a reduction in federal tax rates from 15.0% to 10.0%. The new 10.0% tax rate applies to the first \$6,000 to \$12,000 of taxable income, depending on filing status. A single taxpayer may receive a maximum rebate of \$300 while two taxpayers filing a combined federal return may receive a maximum of \$600. A taxpayer filing under head of household status may receive a maximum of \$500. The rebate is being sent to qualified persons who filed tax year 2000 returns in a timely manner. Persons who did not file tax year 2000 returns but qualify for the rebate are allowed to claim the refund when filing tax year 2001 federal returns. The Iowa Department of Revenue and Finance has determined the rebate is subject to taxation under current Iowa law.

ASSUMPTIONS

1. The federal tax rebates will total \$39.0 billion for the entire country in federal fiscal year 2001.
2. The share of the federal total received by Iowa taxpayers will be 1.1%, or \$426.0 million.
3. The average marginal Iowa income tax rate for persons receiving the rebate will be 5.3%, or \$22.6 million across all Iowa taxpayers receiving the rebate in the next few months.
4. The Bill applies to those taxpayers receiving a rebate later this calendar year. The Bill does not apply to taxpayers who claim the rebate on their 2001 federal tax return.

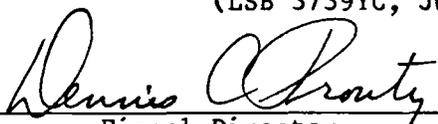
FISCAL IMPACT

Current law requires Iowa income taxes to be paid on the impending federal tax rebate. House File 757 would exempt the rebate from State taxation and would therefore reduce FY 2002 Iowa income taxes by \$22.6 million.

SOURCES

Iowa Department of Revenue and Finance
Federal Internal Revenue Service

(LSB 3739YC, JWR)



Fiscal Director
Legislative Fiscal Bureau
Date: 6/19/01

HOUSE FILE 757**S-3714**

1 Amend House File 757, as passed by the House, as
2 follows:

3 1. By striking everything after the enacting
4 clause, and inserting the following:

5 "Section 1.

6 1. At the meeting in which the revenue estimating
7 conference agrees to the revenue estimate for the
8 fiscal year beginning July 1, 2002, in accordance with
9 section 8.22A, subsection 3, the revenue estimating
10 conference shall agree to an estimate of the amount of
11 additional state individual income tax revenues
12 generated during the fiscal year beginning July 1,
13 2001, which are attributable to the advanced refund of
14 the rate reduction tax credit provided pursuant to the
15 federal Economic Growth and Tax Relief Reconciliation
16 Act of 2001, Pub. L. No. 107-16.

17 2. There is appropriated from the general fund of
18 the state for the fiscal year beginning July 1, 2001,
19 the amount estimated by the revenue estimating
20 conference pursuant to subsection 1, as follows:

21 a. To the department of education for general
22 state financial aid for community colleges in the
23 amount of \$4,800,000. The appropriation in this
24 paragraph is in addition to and shall be allocated in
25 the same proportion as the amount appropriated in 2001
26 Iowa Acts, Senate File 535, section 6, subsection 14.

27 b. To increase the total amount of program job
28 credits allocated for all accelerated career education
29 programs in the state for the fiscal year beginning
30 July 1, 2001, as specified in section 260G.4B,
31 subsection 1, as amended by 2001 Iowa Acts, House File
32 755, section 35, to a maximum amount of \$6,000,000.

33 c. To the workforce development fund the sum of
34 \$3,000,000 to be used for purposes provided in section
35 15.343, subsection 2, paragraph "b". The amount
36 appropriated in this paragraph is in addition to
37 moneys allocated for chapter 260F as provided in 2001
38 Iowa Acts, House File 718, section 22.

39 d. To the department of economic development for
40 accelerated career education program capital projects
41 at community colleges authorized under chapter 260G
42 the sum of \$2,800,000. The amount appropriated in
43 this paragraph is in addition to and shall be
44 allocated in the same manner as the appropriation made
45 in 2001 Iowa Acts, House File 742, section 25,
46 subsection 2.

47 e. To the college student aid commission for the
48 work study program under section 261.85 the sum of
49 \$791,000. The amount allocated in this paragraph is
50 in lieu of the amounts appropriated in section 261.85

S-3714

S-3714

Page 2

1 and 2001 Iowa Acts, Senate File 535, section 4.
2 f. To the state board of regents the amount
3 remaining after the appropriations made in paragraphs
4 "a" through "e" to be allocated to the state
5 university of Iowa, the Iowa state university of
6 science and technology, the university of northern
7 Iowa, the state school for the deaf, and the Iowa
8 braille and sight saving school for salaries, support,
9 maintenance and miscellaneous purposes. The
10 appropriation made in this paragraph shall be
11 allocated to each institution in the same proportion
12 that the appropriations made in 2001 Iowa Acts, Senate
13 File 535, section 8, subsection 2, paragraph "a";
14 subsection 3, paragraph "a"; subsection 4, paragraph
15 "a"; subsection 5; or subsection 6; as appropriate, is
16 to the total of such appropriations.

17 Sec. 2. EFFECTIVE AND APPLICABILITY DATES. This
18 Act, being deemed of immediate importance, takes
19 effect upon enactment and applies retroactively to
20 July 1, 2001, for fiscal years beginning on or after
21 that date."

22 2. Title page, by striking lines 1 through 3 and
23 inserting the following: "An Act appropriating funds
24 for use of the community colleges and the institutions
25 of the state board of regents and providing effective
26 and applicability date provisions."

By JOHN P. KIBBIE
EUGENE S. FRAISE
MIKE CONNOLLY

S-3714 FILED JUNE 19, 2001
RULED OUT OF ORDER

Special Session

HOUSE FILE 757

S-3716

1 Amend House File 757, as passed by the House, as
2 follows:

3 1. By striking everything after the enacting
4 clause and inserting the following:

5 "Section 1. Section 422.4, subsection 1,
6 paragraphs b and c, Code 2001, are amended to read as
7 follows:

8 b. "Cumulative inflation factor" means the product
9 of the annual inflation factor for the ~~1988~~ 2001
10 calendar year and all annual inflation factors for
11 subsequent calendar years as determined pursuant to
12 this subsection. The cumulative inflation factor
13 applies to all tax years beginning on or after January
14 1 of the calendar year for which the latest annual
15 inflation factor has been determined.

16 c. The annual inflation factor for the ~~1988~~ 2001
17 calendar year is one hundred percent.

18 Sec. 2. Section 422.5, subsection 1, paragraphs a
19 through i, Code 2001, are amended by striking the
20 paragraphs and inserting in lieu thereof the
21 following:

22 a. On all taxable income from zero through eight
23 thousand dollars, one and eighty-five hundredths
24 percent.

25 b. On all taxable income exceeding eight thousand
26 dollars but not exceeding forty thousand dollars, five
27 and three-tenths percent.

28 c. On all taxable income exceeding forty thousand
29 dollars but not exceeding sixty thousand dollars, six
30 and thirty-five hundredths percent.

31 d. On all taxable income exceeding sixty thousand
32 dollars, six and six-tenths percent.

33 Sec. 3. Section 422.5, subsection 1, paragraph j,
34 Code 2001, is amended to read as follows:

35 ~~j.~~ e. (1) The tax imposed upon the taxable
36 income of a nonresident shall be computed by reducing
37 the amount determined pursuant to paragraphs "a"
38 through ~~"i"~~ "d" by the amounts of nonrefundable
39 credits under this division and by multiplying this
40 resulting amount by a fraction of which the
41 nonresident's net income allocated to Iowa, as
42 determined in section 422.8, subsection 2, paragraph
43 "a", is the numerator and the nonresident's total net
44 income computed under section 422.7 is the
45 denominator. This provision also applies to
46 individuals who are residents of Iowa for less than
47 the entire tax year.

48 (2) The tax imposed upon the taxable income of a
49 resident shareholder in an S corporation which has in
50 effect for the tax year an election under subchapter S

S-3716

-1-

S-3716

Page 2

1 of the Internal Revenue Code and carries on business
2 within and without the state may be computed by
3 reducing the amount determined pursuant to paragraphs
4 "a" through ~~"i"~~ "d" by the amounts of nonrefundable
5 credits under this division and by multiplying this
6 resulting amount by a fraction of which the resident's
7 net income allocated to Iowa, as determined in section
8 422.8, subsection 2, paragraph "b", is the numerator
9 and the resident's total net income computed under
10 section 422.7 is the denominator. If a resident
11 shareholder has elected to take advantage of this
12 subparagraph, and for the next tax year elects not to
13 take advantage of this subparagraph, the resident
14 shareholder shall not reelect to take advantage of
15 this subparagraph for the three tax years immediately
16 following the first tax year for which the shareholder
17 elected not to take advantage of this subparagraph,
18 unless the director consents to the reelection. This
19 subparagraph also applies to individuals who are
20 residents of Iowa for less than the entire tax year.

21 This subparagraph shall not affect the amount of
22 the taxpayer's checkoff to the Iowa election campaign
23 fund under section 56.18, the checkoff for the fish
24 and game fund in section 456A.16, the credits from tax
25 provided in sections 422.10, 422.11A, and 422.12 and
26 the allocation of these credits between spouses if the
27 taxpayers filed separate returns or separately on
28 combined returns.

29 Sec. 4. Section 422.5, subsection 1, paragraph k,
30 Code 2001, is amended by relettering the paragraph as
31 paragraph f.

32 Sec. 5. Section 422.5, subsection 1, paragraph k,
33 unnumbered paragraph 1, Code 2001, is amended to read
34 as follows:

35 There is imposed upon every resident and
36 nonresident of this state, including estates and
37 trusts, the greater of the tax determined in
38 paragraphs "a" through ~~"j"~~ "e" or the state
39 alternative minimum tax equal to seventy-five percent
40 of the maximum state individual income tax rate for
41 the tax year, rounded to the nearest one-tenth of one
42 percent, of the state alternative minimum taxable
43 income of the taxpayer as computed under this
44 paragraph.

45 Sec. 6. Section 422.5, subsections 2, 5, and 7,
46 Code 2001, are amended to read as follows:

47 2. However, the tax shall not be imposed on a
48 resident or nonresident whose net income, as defined
49 in section 422.7, is thirteen thousand five hundred
50 dollars or less in the case of married persons filing

S-3716

-2-

S-3716

Page 3

1 jointly or filing separately on a combined return,
2 unmarried heads of household, and surviving spouses or
3 ~~nine~~ ten thousand dollars or less in the case of all
4 other persons; but in the event that the payment of
5 tax under this division would reduce the net income to
6 less than thirteen thousand five hundred dollars or
7 ~~nine~~ ten thousand dollars as applicable, then the tax
8 shall be reduced to that amount which would result in
9 allowing the taxpayer to retain a net income of
10 thirteen thousand five hundred dollars or ~~nine~~ ten
11 thousand dollars as applicable. The preceding
12 sentence does not apply to estates or trusts. For the
13 purpose of this subsection, the entire net income,
14 including any part of the net income not allocated to
15 Iowa, shall be taken into account. For purposes of
16 this subsection, net income includes all amounts of
17 pensions or other retirement income received from any
18 source which is not taxable under this division as a
19 result of the government pension exclusions in section
20 422.7, or any other state law. If the combined net
21 income of a husband and wife exceeds thirteen thousand
22 five hundred dollars, neither of them shall receive
23 the benefit of this subsection, and it is immaterial
24 whether they file a joint return or separate returns.
25 However, if a husband and wife file separate returns
26 and have a combined net income of thirteen thousand
27 five hundred dollars or less, neither spouse shall
28 receive the benefit of this paragraph, if one spouse
29 has a net operating loss and elects to carry back or
30 carry forward the loss as provided in section 422.9,
31 subsection 3. A person who is claimed as a dependent
32 by another person as defined in section 422.12 shall
33 not receive the benefit of this subsection if the
34 person claiming the dependent has net income exceeding
35 thirteen thousand five hundred dollars or ~~nine~~ ten
36 thousand dollars as applicable or the person claiming
37 the dependent and the person's spouse have combined
38 net income exceeding thirteen thousand five hundred
39 dollars or ~~nine~~ ten thousand dollars as applicable.
40 In addition, if the married persons', filing
41 jointly or filing separately on a combined return,
42 unmarried head of household's, or surviving spouse's
43 net income exceeds thirteen thousand five hundred
44 dollars, the regular tax imposed under this division
45 shall be the lesser of the maximum state individual
46 income tax rate times the portion of the net income in
47 excess of thirteen thousand five hundred dollars or
48 the regular tax liability computed without regard to
49 this sentence. Taxpayers electing to file separately
50 shall compute the alternate tax described in this

S-3716

-3-

S-3716

Page 4

1 paragraph using the total net income of the husband
2 and wife. The alternate tax described in this
3 paragraph does not apply if one spouse elects to carry
4 back or carry forward the loss as provided in section
5 422.9, subsection 3.

6 5. Upon determination of the latest cumulative
7 inflation factor, the director shall multiply each
8 dollar amount set forth in subsection 1, paragraphs
9 "a" through ~~"i"~~ "d" of this section by this cumulative
10 inflation factor, shall round off the resulting
11 product to the nearest one dollar, and shall
12 incorporate the result into the income tax forms and
13 instructions for each tax year.

14 7. In addition to the other taxes imposed by this
15 section, a tax is imposed on the amount of a lump sum
16 distribution for which the taxpayer has elected under
17 section 402(e) of the Internal Revenue Code to be
18 separately taxed for federal income tax purposes for
19 the tax year. The rate of tax is equal to twenty-five
20 percent of the separate federal tax imposed on the
21 amount of the lump sum distribution. A nonresident is
22 liable for this tax only on that portion of the lump
23 sum distribution allocable to Iowa. The total amount
24 of the lump sum distribution subject to separate
25 federal tax shall be included in net income for
26 purposes of determining eligibility under the thirteen
27 thousand five hundred dollar or less or ~~nine ten~~
28 thousand dollar or less exclusion, as applicable.

29 Sec. 7. Section 422.8, subsection 2, paragraph a,
30 Code 2001, is amended to read as follows:

31 a. Nonresident's net income allocated to Iowa is
32 the net income, or portion of net income, which is
33 derived from a business, trade, profession, or
34 occupation carried on within this state or income from
35 any property, trust, estate, or other source within
36 Iowa. However, income derived from a business, trade,
37 profession, or occupation carried on within this state
38 and income from any property, trust, estate, or other
39 source within Iowa shall not include distributions
40 from pensions, including defined benefit or defined
41 contribution plans, annuities, individual retirement
42 accounts, and deferred compensation plans or any
43 earnings attributable thereto so long as the
44 distribution is directly related to an individual's
45 documented retirement and received while the
46 individual is a nonresident of this state. If a
47 business, trade, profession, or occupation is carried
48 on partly within and partly without the state, only
49 the portion of the net income which is fairly and
50 equitably attributable to that part of the business,

S-3716

-4-

S-3716

Page 5

1 trade, profession, or occupation carried on within the
2 state is allocated to Iowa for purposes of section
3 422.5, subsection 1, paragraph ~~"j"~~ "e", and section
4 422.13 and income from any property, trust, estate, or
5 other source partly within and partly without the
6 state is allocated to Iowa in the same manner, except
7 that annuities, interest on bank deposits and
8 interest-bearing obligations, and dividends are
9 allocated to Iowa only to the extent to which they are
10 derived from a business, trade, profession, or
11 occupation carried on within the state.

12 Sec. 8. Section 422.8, subsection 4, Code 2001, is
13 amended to read as follows:

14 4. The amount of minimum tax paid to another state
15 or foreign country by a resident taxpayer of this
16 state from preference items derived from sources
17 outside of Iowa shall be allowed as a credit against
18 the tax computed under this division except that the
19 credit shall not exceed what the amount of state
20 alternative minimum tax would have been on the same
21 preference items which were taxed by the other state
22 or foreign country. The limitation on this credit
23 shall be computed according to the following formula:
24 The total of preference items earned outside of Iowa
25 and taxed by another state or foreign country shall be
26 divided by the total of preference items of the
27 resident taxpayer of Iowa. In computing this
28 quotient, those items excludable under section 422.5,
29 subsection 1, paragraph ~~"k"~~ "f", subparagraph (1)
30 shall not be used in computing the preference items.
31 This quotient multiplied times the net state
32 alternative minimum tax as determined in section
33 422.5, subsection 1, paragraph ~~"k"~~ "f" on the total of
34 preference items as if entirely earned in Iowa shall
35 be the maximum tax credit against the Iowa alternative
36 minimum tax. However, the maximum tax credit will not
37 be allowed to the extent that the minimum tax imposed
38 by the other state or foreign country is less than the
39 maximum tax credit computed above.

40 Sec. 9. Section 422.9, subsection 1, Code 2001, as
41 amended by 2001 Iowa Acts, Senate File 350, section
42 22, is amended to read as follows:

43 1. An optional standard deduction, after deduction
44 of federal income tax, equal to one thousand two
45 hundred thirty dollars for a married person who files
46 separately or a single person or equal to three
47 thousand thirty dollars for a husband and wife who
48 file a joint return, a surviving spouse, or an
49 unmarried head of household. The optional standard
50 deduction shall not exceed the amount remaining after

S-3716

S-3716

Page 6

1 deduction of the federal income tax. The amount of
2 federal income taxes deducted shall not exceed the
3 amount as computed under subsection 2, paragraph "b".

4 Sec. 10. Section 422.9, subsection 2, paragraph b,
5 Code 2001, as amended by 2001 Iowa Acts, Senate File
6 350, section 22, is amended by striking the paragraph
7 and inserting in lieu thereof the following:

8 b. Add the amount of federal income taxes paid or
9 accrued, as the case may be, to the extent the federal
10 tax payment is for a tax year beginning prior to
11 January 1, 2001. Subtract the amount of federal
12 income tax refunds received in a tax year to the
13 extent that the federal income tax was deducted on an
14 Iowa individual income tax return for a tax year
15 beginning prior to January 1, 2001.

16 Sec. 11. Section 422.11B, Code 2001, is amended to
17 read as follows:

18 422.11B MINIMUM TAX CREDIT.

19 1. There is allowed as a credit against the tax
20 determined in section 422.5, subsection 1, paragraphs
21 "a" through ~~"j"~~ "e" for a tax year an amount equal to
22 the minimum tax credit for that tax year.

23 The minimum tax credit for a tax year is the
24 excess, if any, of the adjusted net minimum tax
25 imposed for all prior tax years beginning on or after
26 January 1, 1987, over the amount allowable as a credit
27 under this section for those prior tax years.

28 2. The allowable credit under subsection 1 for a
29 tax year shall not exceed the excess, if any, of the
30 tax determined in section 422.5, subsection 1,
31 paragraphs "a" through ~~"j"~~ "e" over the state
32 alternative minimum tax as determined in section
33 422.5, subsection 1, paragraph ~~"k"~~ "f".

34 The net minimum tax for a tax year is the excess,
35 if any, of the tax determined in section 422.5,
36 subsection 1, paragraph ~~"k"~~ "f" for the tax year over
37 the tax determined in section 422.5, subsection 1,
38 paragraphs "a" through ~~"j"~~ "e" for the tax year.

39 The adjusted net minimum tax for a tax year is the
40 net minimum tax for the tax year reduced by the amount
41 which would be the net minimum tax if the only item of
42 tax preference taken into account was that described
43 in paragraph (6) of section 57(a) of the Internal
44 Revenue Code.

45 Sec. 12. Section 422.13, subsection 1, paragraph
46 c, Code 2001, as amended by 2001 Iowa Acts, Senate
47 File 140, section 7, is amended to read as follows:

48 c. However, if that part of the net income of a
49 nonresident which is allocated to Iowa pursuant to
50 section 422.8, subsection 2, is less than one thousand

S-3716

-6-

S-3716

Page 7

1 dollars the nonresident is not required to make and
2 sign a return except when the nonresident is subject
3 to the state alternative minimum tax imposed pursuant
4 to section 422.5, subsection 1, paragraph ~~"k"~~ "f".

5 Sec. 13. Section 422.13, subsection 1A, Code 2001,
6 as amended by 2001, Iowa Acts, Senate File 140,
7 section 7, is amended to read as follows:

8 1A. Notwithstanding any other provision in this
9 section, a resident of this state is not required to
10 make and file a return if the person's net income is
11 equal to or less than the appropriate dollar amount
12 listed in section 422.5, subsection 2, upon which tax
13 is not imposed. A nonresident of this state is not
14 required to make and file a return if the person's
15 total net income in section 422.5, subsection 1,
16 paragraph ~~"j"~~ "e", is equal to or less than the
17 appropriate dollar amount provided in section 422.5,
18 subsection 2, upon which tax is not imposed. For
19 purposes of this subsection, the amount of a lump sum
20 distribution subject to separate federal tax shall be
21 included in net income for purposes of determining if
22 a resident is required to file a return and the
23 portion of the lump sum distribution that is allocable
24 to Iowa is included in total net income for purposes
25 of determining if a nonresident is required to make
26 and file a return.

27 Sec. 14. Section 422.21, unnumbered paragraph 5,
28 Code 2001, is amended to read as follows:

29 The director shall determine for the ~~1989~~ 2002
30 calendar year and each subsequent calendar year the
31 annual and cumulative inflation factors for each
32 calendar year to be applied to tax years beginning on
33 or after January 1 of that calendar year. The
34 director shall compute the new dollar amounts as
35 specified to be adjusted in section 422.5 by the
36 latest cumulative inflation factor and round off the
37 result to the nearest one dollar. The annual and
38 cumulative inflation factors determined by the
39 director are not rules as defined in section 17A.2,
40 subsection 11. The director shall determine for the
41 1990 calendar year and each subsequent calendar year
42 the annual and cumulative standard deduction factors
43 to be applied to tax years beginning on or after
44 January 1 of that calendar year. The director shall
45 compute the new dollar amounts of the standard
46 deductions specified in section 422.9, subsection 1,
47 by the latest cumulative standard deduction factor and
48 round off the result to the nearest ten dollars. The
49 annual and cumulative standard deduction factors
50 determined by the director are not rules as defined in

S-3716

S-3716

Page 8

1 section 17A.2, subsection 11.

2 Sec. 15. EFFECTIVE AND APPLICABILITY DATES.

3 This Act, being deemed of immediate importance,
4 takes effect upon enactment and applies retroactively
5 to January 1, 2001, for tax years beginning on or
6 after that date."

7 2. Title page, by striking lines 1 through 3 and
8 inserting the following: "An Act relating to the
9 individual income tax by eliminating the deduction for
10 federal income taxes paid, decreasing the tax rates,
11 increasing the amount of the net income exclusion for
12 single individuals, and including effective and
13 retroactive applicability date provisions."

By PATRICIA HARPER

JOHNIE HAMMOND

MATT McCOY

BETTY A. SOUKUP

TOM FLYNN

PATRICK J. DELUHERY

MIKE CONNOLLY

JOE BOLKCOM

ROBERT E. DVORSKY

MICHAEL E. GRONSTAL

S-3716 FILED JUNE 19, 2001

RULED OUT OF ORDER

Special Session

Sec. 2. **APPLICABILITY.** This Act applies retroactively to January 1, 2001, for tax years beginning on or after that date and before January 1, 2002.

HOUSE FILE 757

AN ACT

RELATING TO THE TAXATION UNDER THE INDIVIDUAL INCOME TAX OF CERTAIN FEDERAL TAX REBATES AND INCLUDING A RETROACTIVE APPLICABILITY DATE PROVISION.

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

Section 1. Section 422.9, Code 2001, as amended by 2001 Iowa Acts, Senate File 350, section 22, is amended by adding the following new subsection:

NEW SUBSECTION. 6. In determining the amount of deduction for federal income tax under subsection 1 or subsection 2, paragraph "b", for tax years beginning in the 2001 calendar year, the amount of the deduction shall not be adjusted by the amount received during the tax year of the advanced refund of the rate reduction tax credit provided pursuant to the federal Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, and the advanced refund of such credit shall not be subject to taxation under this division.

BRENT SIEGRIST
Speaker of the House

MARY E. KRAMER
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 757, Seventy-ninth General Assembly.

Approved June 28, 2001

MARGARET THOMSON
Chief Clerk of the House

THOMAS J. VILSACK
Governor