

FEB 19 2002
WAYS AND MEANS

HOUSE FILE 2443
BY GRUNDBERG

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the taxation of income from a small business
2 by allowing an additional deduction in computing income and
3 providing an income tax credit for the hiring of the first
4 full-time employee and including effective and retroactive
5 applicability date provisions.

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

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HF 2443

1 Section 1. Section 422.7, Code Supplement 2001, is amended
2 by adding the following new subsection:

3 NEW SUBSECTION. 38. a. If the adjusted gross income
4 includes income from a small business operated by the
5 taxpayer, an additional deduction shall be allowed in
6 computing the income from the small business equal to ten
7 thousand dollars or the amount of the income, whichever is
8 less.

9 b. An individual may claim the additional deduction for a
10 small business which is a partnership, limited liability
11 company, S corporation, estate, or trust electing to have the
12 income taxed directly to the individual. The amount of the
13 additional deduction for the individual shall be based upon
14 the pro rata share of the individual's earnings of the
15 partnership, limited liability company, S corporation, estate,
16 or trust.

17 c. For purposes of this subsection, "small business" means
18 any enterprise which is located in this state, which is
19 operated for profit under a single management, and which has
20 either fewer than twenty full-time equivalent employees or an
21 annual income of less than three million dollars computed as
22 the average of the three preceding tax years.

23 Sec. 2. NEW SECTION. 422.11F FIRST EMPLOYEE TAX CREDIT.

24 1. The taxes imposed under this division, less the credits
25 allowed under sections 422.12 and 422.12B, shall be reduced by
26 a first employee tax credit. A small business that hires
27 during the tax year its first full-time employee is entitled
28 to the credit based upon the wages paid to the full-time
29 employee. However, if the full-time employee is hired to
30 replace part-time employees, the credit shall be based upon
31 the wages paid the full-time employee minus the wages paid the
32 employees that were replaced. The amount of the tax credit
33 equals eight percent of the wages upon which the tax credit is
34 based.

35 2. An individual may claim the tax credit allowed a

1 partnership, limited liability company, S corporation, estate,
2 or trust electing to have the income taxed directly to the
3 individual. The amount claimed by the individual shall be
4 based upon the pro rata share of the individual's earnings of
5 a partnership, limited liability company, S corporation,
6 estate, or trust.

7 3. Any credit in excess of the taxpayer's tax liability
8 shall be refunded. In lieu of claiming a refund, the taxpayer
9 may elect to have the overpayment shown on the taxpayer's
10 final, completed return credited to the tax liability for the
11 following tax year.

12 4. For purposes of this subsection, "small business" means
13 any enterprise which is located in this state, which is
14 operated for profit under a single management, and which has
15 an annual income of less than three million dollars computed
16 as the average of the three preceding tax years.

17 Sec. 3. Section 422.33, Code Supplement 2001, is amended
18 by adding the following new subsection:

19 NEW SUBSECTION. 12. a. The taxes imposed under this
20 division shall be reduced by a first employee tax credit. A
21 small business that hires during the tax year its first full-
22 time employee is entitled to the credit based upon the wages
23 paid to the full-time employee. However, if the full-time
24 employee is hired to replace part-time employees, the credit
25 shall be based upon the wages paid the full-time employee
26 minus the wages paid to the employees that were replaced. The
27 amount of the tax credit equals eight percent of the wages
28 upon which the tax credit is based.

29 b. Any credit in excess of the taxpayer's tax liability
30 shall be refunded. In lieu of claiming a refund, the taxpayer
31 may elect to have the overpayment shown on the taxpayer's
32 final, completed return credited to the tax liability for the
33 following tax year.

34 c. For purposes of this subsection, "small business" means
35 any enterprise which is located in this state, which is

1 operated for profit under a single management, and which has
2 an annual income of less than three million dollars computed
3 as the average of the three preceding tax years.

4 Sec. 4. Section 422.35, Code Supplement 2001, is amended
5 by adding the following new subsection:

6 NEW SUBSECTION. 19. a. If the taxable income includes
7 income from a small business operated by the taxpayer,
8 subtract an additional deduction in computing the income from
9 the small business equal to ten thousand dollars or the amount
10 of the income, whichever is less.

11 b. For purposes of this subsection, "small business" means
12 either fewer than twenty full-time equivalent employees or any
13 enterprise which is located in this state, which is operated
14 for profit under a single management, and which has either
15 fewer than twenty full-time equivalent employees or an annual
16 income of less than three million dollars computed as the
17 average of the three preceding tax years.

18 Sec. 5. EFFECTIVE AND APPLICABILITY DATE. This Act, being
19 deemed of immediate importance, takes effect upon enactment
20 and applies retroactively to January 1, 2002, for tax years
21 beginning on or after that date.

22 EXPLANATION

23 This bill provides that for individual and corporate income
24 tax purposes if the taxpayer has income from a small business,
25 the income is recomputed by deducting from it up to \$10,000.
26 A "small business" is one that is operated for profit by the
27 taxpayer under single management with either 20 or fewer full-
28 time equivalent employees or an annual income of less than \$3
29 million computed as the average of the three preceding tax
30 years.

31 The bill also provides for an individual and corporate
32 income tax credit equal to 8 percent of the wages paid in the
33 tax year to the first full-time employee hired by a small
34 business in the tax year. If the full-time employee is hired
35 to replace part-time employees, the credit is equal to 8

1 percent of the wages of the full-time employee minus the wages
2 of the part-time employees. The credit is refundable. "Small
3 business" is a business operated for profit by the taxpayer
4 under single management with annual income of less than \$3
5 million computed as the average of the three preceding tax
6 years.

7 The bill takes effect upon enactment and applies
8 retroactively to January 1, 2002, for tax years beginning on
9 or after that date.

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