

McKibben
McKinley
Deluhery

Succeeded By
SF/HF 5/6

SSB-1252

Ways & Means

SENATE FILE _____
BY (PROPOSED COMMITTEE ON WAYS
AND MEANS BILL BY
CHAIRPERSON MCKIBBEN)

Passed Senate, Date _____ Passed House, 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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1999/12

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 HF 708
5/2/01
(P. 1726)

FILED APR 3 2001

SENATE FILE 516
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 1252)
(COMPANION TO HF 708 BY
COMMITTEE ON WAYS AND MEANS)

Passed Senate, ^(P. 1344) Date 4/26/01 Passed House, ^(P. 1727) Date 5/2/01
Vote: Ayes 32 Nays 16 Vote: Ayes 62 Nays 35
Approved 5/31/01
Retired

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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5F 516

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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SENATE FILE 516

S-3440

- 1 Amend Senate File 516 as follows:
- 2 1. Page 1, by striking lines 10 through 12 and
- 3 inserting the following:
- 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."
- 16 2. Title page, line 4, by striking the word "a"
- 17 and inserting the following: "an effective and".

By LARRY MCKIBBEN

S-3440 FILED APRIL 23, 2001

lost
4/26/01 (p. 1343)

SENATE FILE 516

S-3540

- 1 Amend the amendment, S-3440, to Senate File 516 as
- 2 follows:
- 3 1. Page 1, line 4, by striking the word
- 4 "RETROACTIVE".
- 5 2. Page 1, by striking lines 14 and 15 and
- 6 inserting the following: "applies to tax years
- 7 beginning on or after January 1, 2003."
- 8 3. Page 1, line 16, by striking the words "word
- 9 "a" and inserting the following: "words "a
- 10 retroactive".

By THOMAS FIEGEN

S-3540 FILED APRIL 26, 2001

LOST

(p. 1343)

**SENATE FILE 516
FISCAL NOTE**

A fiscal note for **Senate File 516** 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.

Senate File 516 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

-2-

Senate File 516 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 3149SV, JWR)

FILED APRIL 16, 2001

BY DENNIS PROUTY, FISCAL DIRECTOR

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. EFFECTIVE AND RETROACTIVE APPLICABILITY PROVISION.

11 This Act takes effect only if the revenue estimating
12 conference estimates that, as a result of the enactment of
13 federal income tax legislation prior to January 1, 2002, Iowa
14 income tax receipts for the fiscal year beginning July 1,
15 2001, will be increased by \$7.9 million or more over the
16 amount of Iowa income tax receipts which would have been
17 realized in the absence of the enactment of such federal
18 income tax legislation. If this Act takes effect, this Act
19 applies retroactively to January 1, 2001, for tax years
20 beginning on or after that date.

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SENATE FILE 516

H-1794

1 Amend Senate File 516, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, by striking lines 1 and 2, and
4 inserting the following:

5 "Section 1. Section 422.5, subsection 1, paragraph
6 j, subparagraph (2), unnumbered paragraph 1, Code
7 2001, is amended to read as follows:

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

35 Sec. 2. Section 422.5, subsection 1, paragraph k,
36 unnumbered paragraph 4, Code 2001, is amended to read
37 as follows:

38 In the case of a resident, including a resident
39 estate or trust, the state's apportioned share of the
40 state alternative minimum tax is one hundred percent
41 of the state alternative minimum tax computed in this
42 subsection. In the case of a resident or part-year
43 resident shareholder in an S corporation which has in
44 effect for the tax year an election under subchapter S
45 of the Internal Revenue Code and carries on business
46 within and without the state, a resident or part-year
47 resident member of a limited liability company which
48 carries on business within or without the state a
49 nonresident, including a nonresident estate or trust,
50 or an individual, estate, or trust that is domiciled

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1 in the state for less than the entire tax year, the
2 state's apportioned share of the state alternative
3 minimum tax is the amount of tax computed under this
4 subsection, reduced by the applicable credits in
5 sections 422.10 through 422.12 and this result
6 multiplied by a fraction with a numerator of the sum
7 of state net income allocated to Iowa as determined in
8 section 422.8, subsection 2, paragraph "a" or "b" as
9 applicable, plus tax preference items, adjustments,
10 and losses under subparagraph (1) attributable to Iowa
11 and with a denominator of the sum of total net income
12 computed under section 422.7 plus all tax preference
13 items, adjustments, and losses under subparagraph (1).
14 In computing this fraction, those items excludable
15 under subparagraph (1) shall not be used in computing
16 the tax preference items. Married taxpayers electing
17 to file separate returns or separately on a combined
18 return must allocate the minimum tax computed in this
19 subsection in the proportion that each spouse's
20 respective preference items, adjustments, and losses
21 under subparagraph (1) bear to the combined preference
22 items, adjustments, and losses under subparagraph (1)
23 of both spouses.

24 Sec. 3. Section 422.8, subsection 2, paragraph b,
25 Code 2001, is amended to read as follows:

26 b. A resident's income allocable to Iowa is the
27 income determined under section 422.7 reduced by items
28 of income and expenses from an S corporation or a
29 limited liability company that carries on business
30 within and without the state when those items of
31 income and expenses pass directly to the shareholders
32 or members under provisions of the Internal Revenue
33 Code. These items of income and expenses are
34 increased by the greater of the following:

35 (1) The net income or loss of the corporation or
36 limited liability company, as applicable, which is
37 fairly and equitably attributable to this state under
38 section 422.33, subsections 2 and 3."

39 2. Page 1, line 8, by inserting after the word
40 "shareholder" the following: "or member".

41 3. Page 1, line 9, by inserting after the word
42 "corporation" the following: "or limited liability
43 company, as applicable".

44 4. Page 1, by inserting after line 9, the
45 following:

46 "Sec. 4. Section 422.8, subsection 6, Code 2001,
47 is amended to read as follows:

48 6. If the resident or part-year resident is a
49 shareholder of an S corporation which has in effect an
50 election under subchapter S of the Internal Revenue

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1 Code or is a member of a limited liability company,
2 subsections 1 and 3 do not apply to any income taxes
3 paid to another state or foreign country on the income
4 from the corporation which has in effect an election
5 under subchapter S of the Internal Revenue Code or the
6 limited liability company, as applicable."
7 5. Title page, line 3, by inserting after the
8 word "corporation" the following: "or limited
9 liability company".

By GRUNDBERG of Polk

H-1794 FILED APRIL 30, 2001

W/D
5/2/01
(p. 1726)

SENATE FILE 516

H-1902

1 Amend Senate File 516, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, line 10, by striking the word
4 "RETROACTIVE".

5 2. Page 1, by striking lines 19 and 20, and
6 inserting the following: "applies to tax years
7 beginning on or after January 1, 2002."

8 3. Title page, line 4, by striking the word
9 "retroactive".

By LARSON of Linn

H-1902 FILED MAY 2, 2001

adopted 5/2/01 (P. 1726)

SENATE FILE 516**H-1835**

1 Amend Senate File 516, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, line 13, by inserting after the word
4 "tax" the following: "or state sales and use tax".

5 2. Page 1, line 14, by inserting after the word
6 "tax" the following: "or state sales and use tax".

7 3. Page 1, line 16, by inserting after the word
8 "tax" the following: "or state sales and use tax".

9 4. Page 1, line 18, by inserting after the word
10 "tax" the following: "or state sales and use tax".

11 5. Page 1, by inserting after line 20 the
12 following:

13 "Sec. ____ . NEW SECTION. 293.1 SCHOOL DISTRICT
14 SALES AND USE TAX FUND.

15 1. A school district sales and use tax fund is
16 created as a separate and distinct fund in the state
17 treasury under the control of the department of
18 revenue and finance. Moneys in the fund include
19 revenues credited to the fund pursuant to section
20 422.69, subsection 2, and section 423.24,
21 appropriations made to the fund and other moneys
22 deposited into the fund. The moneys credited in a
23 fiscal year to the fund shall be distributed as
24 follows:

25 a. A school district located in whole or in part
26 in a county that had in effect on March 31, 2001, the
27 local sales and services tax for school infrastructure
28 purposes under chapter 422E shall receive an amount
29 equal to its guaranteed school infrastructure amount
30 as calculated under subsection 2 if the board of
31 directors notifies the director of revenue and finance
32 that the school district wants to receive its
33 guaranteed school infrastructure amount. The
34 notification shall be provided by July 1, 2001. If
35 notification is not received by July 1, 2001, the
36 school district shall receive moneys pursuant to
37 paragraph "b". Nothing in this chapter shall prevent
38 a school district from using its guaranteed school
39 infrastructure amount to pay principle and interest on
40 obligations issued pursuant to section 422E.4.

41 A school district receiving moneys pursuant to this
42 paragraph shall cease to receive its guaranteed school
43 infrastructure amount and shall receive moneys
44 pursuant to paragraph "b" starting with the fiscal
45 year immediately following the fiscal year in which
46 occurs the end of the original ten-year period or the
47 date listed on the original ballot proposition,
48 whichever is the earlier, as provided in chapter 422E.
49 A school district may adopt a plan, as provided in
50 section 293.2, subsection 2, to anticipate moneys it

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1 will receive pursuant to paragraph "b". A school
2 district receiving moneys pursuant to this paragraph
3 may elect to receive moneys pursuant to paragraph "b"
4 by providing notification to receive moneys pursuant
5 to paragraph "b" to the director of revenue and
6 finance and the director of the department of
7 management by February 15 preceding the fiscal year
8 for which the election will apply. Once a school
9 district makes this election it is irrevocable.

10 b. Moneys remaining after computations made
11 pursuant to paragraph "a" shall be distributed to
12 school districts not receiving moneys under paragraph
13 "a" on a per student basis calculated by the director
14 of revenue and finance by dividing the moneys
15 available during the fiscal year by the combined
16 actual enrollment for all school districts receiving
17 distributions under this paragraph.

18 The combined actual enrollment for school
19 districts, for purposes of this paragraph, shall be
20 calculated by adding together the actual enrollment
21 for each school district receiving distributions under
22 this paragraph as determined by the department of
23 management based on the actual enrollment figures
24 reported by October 1 to the department of management
25 by the department of education pursuant to section
26 257.6, subsection 1. The combined actual enrollment
27 count shall be forwarded to the director of revenue
28 and finance by March 1, annually, for purposes of
29 supplying estimated tax payment figures and making
30 estimated tax payments pursuant to subsection 3 for
31 the following fiscal year.

32 2. a. For purposes of distributions under
33 subsection 1, paragraph "a", the school district's
34 guaranteed school infrastructure amount shall be
35 calculated according to the following formula:

36 The district's guaranteed school infrastructure
37 amount equals the product of the county guaranteed
38 school infrastructure amount times the district's
39 county actual enrollment divided by the county
40 combined actual enrollment.

41 b. For purposes of the formula in paragraph "a":

42 (1) "Base year" means the fiscal year beginning
43 July 1, 2000.

44 (2) "Base year county taxable sales percentage"
45 means the percentage that the taxable sales in the
46 county during the base year is of the total state
47 taxable sales during the base year.

48 (3) "County combined actual enrollment" means the
49 actual enrollment figures determined by the department
50 of management for the county based on the actual

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1 enrollment figures reported by October 1 to the
2 department of management by the department of
3 education pursuant to section 257.6, subsection 1.

4 (4) "County guaranteed school infrastructure
5 amount" means an amount equal to the product of the
6 county's chapter 422E proportionate share times the
7 amount deposited in the school district sales and use
8 tax fund for the current year times the current year
9 county taxable sales percentage divided by the base
10 year county taxable sales percentage.

11 (5) "County's chapter 422E proportionate share"
12 means the percentage that the annualized revenues
13 received in the county under chapter 422E for the base
14 year is of one-fifth of the total state sales and use
15 tax revenues collected for deposit into the general
16 fund of the state for the base year.

17 (6) "Current year" means the fiscal year for which
18 distributions under this section are being made.

19 (7) "Current year county taxable sales percentage"
20 means the percentage that the taxable sales in the
21 county during the current fiscal year is of the total
22 state taxable sales during the current fiscal year.

23 (8) "District's county actual enrollment" means the
24 actual enrollment of the school district that attends
25 school in the county for which the county combined
26 actual enrollment is determined.

27 (9) "Taxable sales" means sales subject to the
28 state sales and services tax under chapter 422,
29 division IV.

30 3. a. The director of revenue and finance within
31 fifteen days of the beginning of each fiscal year
32 shall send to each school district an estimate of the
33 amount of tax moneys each school district will receive
34 for the year and for each quarter of the year. At the
35 end of each quarter, the director may revise the
36 estimates for the year and remaining quarters.

37 b. The director shall remit ninety-five percent of
38 the estimated tax receipts for the school district to
39 the school district on or before September 30 of the
40 fiscal year and on or before the last day of each
41 following quarter.

42 c. The director shall remit a final payment of the
43 remainder of tax moneys due for the fiscal year before
44 November 10 of the next fiscal year. If an
45 overpayment has resulted during the previous fiscal
46 year, the November payment shall be adjusted to
47 reflect any overpayment.

48 d. If the distributions are to school districts
49 described in subsection 1, paragraph "a", the payments
50 to these school districts shall be done on a monthly

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1 basis beginning with the month of August.

2 Sec. ____ . NEW SECTION. 293.2 USE OF SCHOOL
3 DISTRICT SALES AND USE TAX FUND MONEYS.

4 1. A school district receiving moneys from the
5 school district sales and use tax fund under section
6 293.1, subsection 1, paragraph "a", shall use the
7 moneys as provided on the original ballot proposition
8 pursuant to chapter 422E, for the payment of principal
9 and interest on general obligation bonds issued
10 pursuant to chapter 296, or section 298.20 or loan
11 agreements under section 297.36, for payments made
12 pursuant to lease or lease-purchase agreements, or for
13 payment of principal and interest on bonds issued
14 under sections 293.3 and 422E.4.

15 2. a. Moneys received by a school district from
16 the school district sales and use tax fund under
17 section 293.1, subsection 1, paragraph "b", shall be
18 spent for infrastructure purposes only according to a
19 plan developed by the board of directors. The plan
20 may apply to more than one fiscal year. Prior to
21 adoption of the plan, the board of directors shall
22 hold a public hearing on the question of approval of
23 the proposed plan. The board shall set forth its
24 proposal and shall publish the notice of the time and
25 place of a public hearing on the proposed plan.
26 Notice of the time and place of the public hearing
27 shall be published not less than ten nor more than
28 twenty days before the public hearing in a newspaper
29 which is a newspaper of general circulation in the
30 school district. At the hearing, or no later than
31 thirty days after the date of the hearing, the board
32 shall take action to adopt the proposed plan.

33 b. If the board adopts the plan, moneys received
34 shall be used according to the plan unless within
35 twenty-eight days following the action of the board,
36 the secretary of the board receives a petition
37 containing signatures of registered voters equal in
38 number to five percent of the voters in the school
39 district who voted at the last general election,
40 asking that an election be called to approve or
41 disapprove the action of the board. The board shall
42 either rescind its action or direct the county
43 commissioner of elections to submit the question to
44 the registered voters of the school district at the
45 next following regular school election or a special
46 election. If a majority of those voting on the
47 question at the election favors disapproval of the
48 action of the board, the district shall use the moneys
49 received as provided in paragraph "c" for the fiscal
50 year.

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1 At the expiration of the twenty-eight day period,
2 if no petition is filed, the board shall use the
3 moneys received according to the plan for the duration
4 of the plan. However, the board may, at anytime,
5 expend a greater share of moneys received for property
6 tax relief than otherwise specified in the plan.

7 c. If an election is held and the plan is
8 disapproved, as provided in paragraph "b", or if a
9 plan is not approved by the board, moneys received by
10 a school district shall be used for the fiscal year to
11 reduce the following levies in the following order:

12 (1) Bond levies under sections 298.18 and 298.18A
13 and other debt levies until the moneys received or the
14 levies are reduced to zero.

15 (2) The physical plant and equipment levy under
16 section 298.2, until the moneys received or the levy
17 is reduced to zero.

18 (3) The public educational and recreational
19 activities levy under section 300.2, until the moneys
20 received or the levy is reduced to zero.

21 (4) The schoolhouse tax levy under section 278.1,
22 subsection 7, Code 1989, until the moneys received or
23 the levy is reduced to zero.

24 Any money remaining after the reduction of the
25 levies specified in this paragraph may be used for any
26 lawful infrastructure purpose of the school district.

27 d. For purposes of this subsection,
28 "infrastructure purposes" means those purposes for
29 which a school district is authorized to contract
30 indebtedness and issue general obligation bonds under
31 chapter 296 or to expend tax revenues under section
32 298.3, the payment of principal and interest on
33 general obligation bonds issued under chapter 296 or
34 section 298.20 or loan agreements under section
35 297.36, payments made pursuant to a lease or lease-
36 purchase agreement, or the payment of principal and
37 interest on bonds issued under section 293.3 or
38 422E.4.

39 Sec. ____ . NEW SECTION. 293.3 BONDING.

40 A school district may issue bonds as provided in
41 this section if it complies with all of the following
42 procedures:

43 1. A school district may institute proceedings for
44 the issuance of bonds by causing a notice of the
45 proposal to issue the bonds, including a statement of
46 the amount and purpose of the bonds, and the right of
47 voters to petition for an election, to be published at
48 least once in a newspaper of general circulation
49 within the school district at least ten days prior to
50 the meeting at which it is proposed to take action for

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1 the issuance of the bonds.
2 If at any time before the date fixed for taking
3 action for the issuance of the bonds, a petition is
4 filed signed by five percent of the registered voters
5 of the school district, asking that the question of
6 issuing the bonds be submitted to the registered
7 voters, the board of directors shall either by
8 resolution declare the proposal to issue the bonds to
9 be abandoned or shall direct the county commissioner
10 of elections to call a special election upon the
11 question of issuing the bonds. The proposition of
12 issuing bonds under this section is not approved
13 unless the vote in favor of the proposition is equal
14 to at least sixty percent of the vote cast. If a
15 petition is not filed, or if a petition is filed and
16 the proposition of issuing the bonds is approved at an
17 election, the board of directors may proceed with the
18 authorization and issuance of the bonds. Bonds may be
19 issued for the purpose of refunding outstanding and
20 previously issued bonds under this section without
21 otherwise complying with the provisions of this
22 section.

23 2. The provisions of chapter 76 apply to the bonds
24 payable as provided in this subsection, except that
25 the mandatory levy to be assessed pursuant to section
26 76.2 shall be at a rate to generate an amount which
27 together with the receipts from the pledged designated
28 portion of the school district's amount received from
29 the school district sales and use tax fund under
30 section 293.1 is sufficient to pay the interest and
31 principal on the bonds. All amounts collected as a
32 result of the levy assessed pursuant to section 76.2
33 and paid out for bond principal and interest shall be
34 repaid to the school district from the first available
35 designated portion of the school district's amount
36 received from the school district sales and use tax
37 fund under section 293.1 received in excess of the
38 requirement for the payment of the principal and
39 interest of the bonds and when repaid shall be applied
40 in reduction of property taxes. The amount of bonds
41 which may be issued under section 76.3 shall be the
42 amount which could be retired from the actual
43 collections of the designated portions of the school
44 district's amount received from the school district
45 sales and use tax fund under section 293.1 for the
46 last four calendar quarters, as certified by the
47 director of revenue and finance. The amount of tax
48 revenues pledged jointly by other cities or counties
49 may be considered for the purpose of determining the
50 amount of bonds which may be issued.

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1 3. The provisions of this section constitute
2 separate authorization for the issuance of bonds and
3 shall prevail in the event of conflict with any other
4 provisions of state law limiting the amount of bonds
5 which may be issued or the source of payment of the
6 bonds. Bonds issued under this section shall not
7 limit or restrict the authority of the school district
8 to issue bonds under other provisions of state law.

9 Sec. ____ . NEW SECTION. 293.4 REPEAL.

10 This chapter is repealed July 1, 2021, for fiscal
11 years beginning on or after that date.

12 Sec. ____ . Section 298.18, unnumbered paragraph 4,
13 Code 2001, is amended by striking the unnumbered
14 paragraph and inserting in lieu thereof the following:

15 If the school corporation's amount received from
16 the school district sales and use tax fund under
17 section 293.1 does not equal or exceed the amount
18 which would be produced by a levy of one dollar
19 thirty-five cents per thousand dollars of the assessed
20 value of the taxable property of the school
21 corporation, the amount estimated and certified to
22 apply on principal and interest for any one year may
23 exceed two dollars and seventy cents per thousand
24 dollars of assessed value by the amount approved by
25 the voters of the school corporation, but not
26 exceeding four dollars and five cents per thousand of
27 the assessed value of the taxable property within any
28 school corporation, provided that the qualified voters
29 of such school corporation have first approved such
30 increased amount at a special election, which may be
31 held at the same time as the regular school election,
32 and provided further that the school corporation's
33 amount received from the school district sales and use
34 tax fund under section 293.1 shall be used to abate an
35 additional levy amount authorized after July 1, 2001.
36 A levy approved prior to July 1, 2001, shall continue
37 to be authorized. The proposition submitted to the
38 voters at such special election shall be in
39 substantially the following form:

40 Sec. ____ . Section 298.18, unnumbered paragraph 5,
41 Code 2001, is amended to read as follows:

42 Shall the board of directors of the (insert
43 name of school corporation) in the County of,
44 State of Iowa, be authorized to levy annually a tax
45 exceeding two dollars and seventy cents per thousand
46 dollars, but not exceeding .. dollars and ... cents
47 per thousand dollars of the assessed value of the
48 taxable property within said school corporation to pay
49 the principal of and interest on bonded indebtedness
50 of said school corporation, it being understood that

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1 the approval of this proposition shall not limit the
2 source of payment of the bonds and interest but shall
3 only operate to restrict the amount of bonds which may
4 be issued and that the additional levy shall be
5 reduced and abated in any year by the amount of money
6 received from the school district sales and use tax
7 fund under section 293.1?

8 Sec. _____. Section 422.43, subsections 1, 2, 4, 5,
9 6, 7, 10, and 12, Code 2001, are amended to read as
10 follows:

11 1. There is imposed a tax of ~~five~~ six percent upon
12 the gross receipts from all sales of tangible personal
13 property, consisting of goods, wares, or merchandise,
14 except as otherwise provided in this division, sold at
15 retail in the state to consumers or users; a like rate
16 of tax upon the gross receipts from the sales,
17 furnishing, or service of gas, electricity, water,
18 heat, pay television service, and communication
19 service, including the gross receipts from such sales
20 by any municipal corporation or joint water utility
21 furnishing gas, electricity, water, heat, pay
22 television service, and communication service to the
23 public in its proprietary capacity, except as
24 otherwise provided in this division, when sold at
25 retail in the state to consumers or users; a like rate
26 of tax upon the gross receipts from all sales of
27 tickets or admissions to places of amusement, fairs,
28 and athletic events except those of elementary and
29 secondary educational institutions; a like rate of tax
30 on the gross receipts from an entry fee or like charge
31 imposed solely for the privilege of participating in
32 an activity at a place of amusement, fair, or athletic
33 event unless the gross receipts from the sales of
34 tickets or admissions charges for observing the same
35 activity are taxable under this division; and a like
36 rate of tax upon that part of private club membership
37 fees or charges paid for the privilege of
38 participating in any athletic sports provided club
39 members.

40 2. There is imposed a tax of ~~five~~ six percent upon
41 the gross receipts derived from the operation of all
42 forms of amusement devices and games of skill, games
43 of chance, raffles, and bingo games as defined in
44 chapter 99B, operated or conducted within the state,
45 the tax to be collected from the operator in the same
46 manner as for the collection of taxes upon the gross
47 receipts of tickets or admission as provided in this
48 section. The tax shall also be imposed upon the gross
49 receipts derived from the sale of lottery tickets or
50 shares pursuant to chapter 99E. The tax on the

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1 lottery tickets or shares shall be included in the
2 sales price and distributed to the general fund as
3 provided in section 99E.10.

4 4. There is imposed a tax of five six percent upon
5 the gross receipts from the sales of engraving,
6 photography, retouching, printing, and binding
7 services. For the purpose of this division, the sales
8 of engraving, photography, retouching, printing, and
9 binding services are sales of tangible property.

10 5. There is imposed a tax of five six percent upon
11 the gross receipts from the sales of vulcanizing,
12 recapping, and retreading services. For the purpose
13 of this division, the sales of vulcanizing, recapping,
14 and retreading services are sales of tangible
15 property.

16 6. There is imposed a tax of five six percent upon
17 the gross receipts from the sales of optional service
18 or warranty contracts, except residential service
19 contracts regulated under chapter 523C, which provide
20 for the furnishing of labor and materials and require
21 the furnishing of any taxable service enumerated under
22 this section. The gross receipts are subject to tax
23 even if some of the services furnished are not
24 enumerated under this section. For the purpose of
25 this division, the sale of an optional service or
26 warranty contract, other than a residential service
27 contract regulated under chapter 523C, is a sale of
28 tangible personal property. Additional sales,
29 services, or use taxes shall not be levied on
30 services, parts, or labor provided under optional
31 service or warranty contracts which are subject to tax
32 under this section.

33 If the optional service or warranty contract is a
34 computer software maintenance or support service
35 contract and there is no separately stated fee for the
36 taxable personal property or for the nontaxable
37 service, the tax of five six percent imposed by this
38 subsection shall be imposed on fifty percent of the
39 gross receipts from the sale of such contract. If the
40 contract provides for technical support services only,
41 no tax shall be imposed under this subsection. The
42 provisions of this subsection also apply to the tax
43 imposed by chapter 423.

44 7. There is imposed a tax of five six percent upon
45 the gross receipts from the renting of rooms,
46 apartments, or sleeping quarters in a hotel, motel,
47 inn, public lodging house, rooming house, mobile home
48 which is tangible personal property, or tourist court,
49 or in any place where sleeping accommodations are
50 furnished to transient guests for rent, whether with

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1 or without meals. "Renting" and "rent" include any
2 kind of direct or indirect charge for such rooms,
3 apartments, or sleeping quarters, or their use. For
4 the purposes of this division, such renting is
5 regarded as a sale of tangible personal property at
6 retail. However, this tax does not apply to the gross
7 receipts from the renting of a room, apartment, or
8 sleeping quarters while rented by the same person for
9 a period of more than thirty-one consecutive days.

10 10. There is imposed a tax of five six percent
11 upon the gross receipts from the rendering,
12 furnishing, or performing of services as defined in
13 section 422.42.

14 12. A tax of five six percent is imposed upon the
15 gross receipts from the sales of prepaid telephone
16 calling cards and prepaid authorization numbers. For
17 the purpose of this division, the sales of prepaid
18 telephone calling cards and prepaid authorization
19 numbers are sales of tangible personal property.

20 Sec. _____. Section 422.43, subsection 13, paragraph
21 a, unnumbered paragraph 1, Code 2001, is amended to
22 read as follows:

23 A tax of five six percent is imposed upon the gross
24 receipts from the sales, furnishing, or service of
25 solid waste collection and disposal service.

26 Sec. _____. Section 422.43, Code 2001, is amended by
27 adding the following new subsection:

28 NEW SUBSECTION. 16. The sales tax rate of six
29 percent is reduced to five percent on July 1, 2021.

30 Sec. _____. Section 422.47, subsection 2, Code 2001,
31 is amended to read as follows:

32 2. Construction contractors may make application
33 to the department for a refund of the additional one
34 percent tax paid under this division or the additional
35 one percent tax paid under chapter 423 by reason of
36 the increase in the tax from ~~four to~~ five to six
37 percent for taxes paid on goods, wares, or merchandise
38 under the following conditions:

39 a. The goods, wares, or merchandise are
40 incorporated into an improvement to real estate in
41 fulfillment of a written contract fully executed prior
42 to July 1, ~~1992~~ 2001. The refund shall not apply to
43 equipment transferred in fulfillment of a mixed
44 construction contract.

45 b. The contractor has paid to the department or to
46 a retailer the full five six percent tax.

47 c. The claim is filed on forms provided by the
48 department and is filed within one year of the date
49 the tax is paid.

50 A contractor who makes an erroneous application for

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1 refund shall be liable for payment of the excess
2 refund paid plus interest at the rate in effect under
3 section 421.7. In addition, a contractor who
4 willfully makes a false application for refund is
5 guilty of a simple misdemeanor and is liable for a
6 penalty equal to fifty percent of the excess refund
7 claimed. Excess refunds, penalties, and interest due
8 under this subsection may be enforced and collected in
9 the same manner as the tax imposed by this division.

10 Sec. _____. Section 422.69, subsection 2, Code 2001,
11 is amended to read as follows:

12 2. a. ~~Unless~~ Except as provided in paragraph "b",
13 or as otherwise provided, the fees, taxes, interest
14 and penalties collected under this chapter shall be
15 credited to the general fund.

16 b. One-sixth of the fees, taxes, interest, and
17 penalties collected pursuant to division IV shall be
18 credited to the school district sales and use tax fund
19 created in section 293.1. This paragraph is stricken
20 July 1, 2021.

21 Sec. _____. Section 422E.1, Code 2001, is amended by
22 adding the following new subsection:

23 NEW SUBSECTION. 4. a. This chapter does not
24 apply to any county for the period beginning after the
25 effective date of this Act and ending January 1, 2021.

26 b. In the case of a county that has in effect on
27 March 31, 2001, a local sales and services tax for
28 school infrastructure purposes, the increase in the
29 state sales and services tax under chapter 422,
30 division IV, from five percent to six percent shall
31 replace the county's local sales and services tax for
32 school infrastructure purposes and to this extent the
33 local sales and services tax for school infrastructure
34 purposes is repealed.

35 Sec. _____. Section 423.2, Code 2001, is amended to
36 read as follows:

37 423.2 IMPOSITION OF TAX.

38 An excise tax is imposed on the use in this state
39 of tangible personal property, including aircraft
40 subject to registration under section 328.20,
41 purchased for use in this state, at the rate of ~~five~~
42 six percent of the purchase price of the property. An
43 excise tax is imposed on the use of manufactured
44 housing in this state at the rate of ~~five~~ six percent
45 of the purchase price if the manufactured housing is
46 sold in the form of tangible personal property and at
47 the rate of ~~five~~ six percent of the installed purchase
48 price if the manufactured housing is sold in the form
49 of realty. An excise tax is imposed on the use in
50 this state of vehicles subject to registration or

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1 subject only to the issuance of a certificate of title
2 at the rate of five percent. An excise tax is imposed
3 on the use of leased vehicles at the rate of five
4 percent of the amount otherwise subject to tax as
5 calculated pursuant to section 423.7A. The excise tax
6 is imposed upon every person using the property within
7 this state until the tax has been paid directly to the
8 county treasurer or the state department of
9 transportation, to a retailer, or to the department.

10 An excise tax is imposed on the use in this state of
11 services enumerated in section 422.43 at the rate of
12 five six percent. This tax is applicable where
13 services are rendered, furnished, or performed in this
14 state or where the product or result of the service is
15 used in this state. This tax is imposed on every
16 person using the services or the product of the
17 services in this state until the user has paid the tax
18 either to an Iowa use tax permit holder or to the
19 department. The rate of use tax of six percent shall
20 be reduced to five percent beginning July 1, 2021.

21 Sec. _____. Section 423.24, Code 2001, is amended by
22 adding the following new subsection:

23 NEW SUBSECTION. 2A. One-sixth of all other
24 revenue arising under the operation of this chapter
25 shall be credited to the school district sales and use
26 tax fund created in section 293.1. This subsection is
27 stricken July 1, 2021.

28 Sec. _____. Section 423.24, subsection 3, Code 2001,
29 is amended to read as follows:

30 3. All other revenue arising under the operation
31 of this chapter not credited as specified in
32 subsections 1, 2, and 2A shall be credited to the
33 general fund of the state.

34 Sec. _____. APPLICABILITY. This section applies in
35 regard to the increase in the state sales and use
36 taxes from five to six percent. The six percent rate
37 applies to all sales of taxable personal property,
38 consisting of goods, wares, or merchandise if delivery
39 occurs on or after July 1, 2001. The six percent use
40 tax rate applies to the use of property when the first
41 taxable use in this state occurs on or after July 1,
42 2001. The six percent rate applies to the gross
43 receipts from the sale, furnishing, or service of gas,
44 electricity, water, heat, pay television service, and
45 communication service if the date of billing the
46 customer is on or after July 1, 2001. In the case of
47 a service contract entered into prior to July 1, 2001,
48 which contract calls for periodic payments, the six
49 percent rate applies to those payments made or due on
50 or after July 1, 2001. This periodic payment applies,

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1 but is not limited to, tickets or admissions, private
 2 club membership fees, sources of amusement, equipment
 3 rental, dry cleaning, reducing salons, dance schools,
 4 and all other services subject to tax, except the
 5 aforementioned utility services which are subject to a
 6 special transitional rule. Unlike periodic payments
 7 under service contracts, installment sales of goods,
 8 wares, and merchandise are subject to the full amount
 9 of sales or use tax when the sales contract is entered
 10 into or the property is first used in Iowa.

11 _____. The sections of this Act enacting new Code
 12 sections 293.1 and 293.2, being deemed of immediate
 13 importance, take effect upon enactment.

14 Sec. _____. This Act is repealed July 1, 2021, for
 15 sales and use tax transactions occurring or, in the
 16 case of utilities, being billed on or after that
 17 date."

18 6. Title page, line 3, by inserting after the
 19 word "tax" the following: ", increasing state sales
 20 and use taxes for a twenty-year period, distributing
 21 the increased revenues to school districts,".

By RICHARDSON of Warren

H-1835 FILED MAY 1, 2001

W/D 5/2/01

(P. 1726)

SENATE FILE 516

H-1836

1 Amend the amendment, H-1835, to Senate File 516, as
 2 amended, passed, and reprinted by the Senate, as
 3 follows:

4 1. Page 1, line 23, by inserting after the word
 5 "distributed" the following: "in the following
 6 order".

7 2. Page 1, by inserting after line 24, the
 8 following:

9 "_____. If a teacher compensation reform and student
 10 achievement savings account fund is established by an
 11 Act of the general assembly, there shall be
 12 transferred into such fund as follows:

13 (1) For each fiscal year in the period beginning
 14 July 1, 2001, and ending June 30, 2004, the sum of
 15 forty million dollars annually.

16 (2) For the fiscal year beginning July 1, 2004,
 17 the sum of twenty-five million dollars.

18 (3) For the fiscal year beginning July 1, 2005,
 19 the sum of ten million dollars."

By RICHARDSON of Warren

H-1836 FILED MAY 1, 2001

o/o

5/1/01

(P. 1726)

SENATE FILE 516

H-1839

1 Amend Senate File 516, as amended, passed, and
 2 reprinted by the Senate, as follows:
 3 1. Page 1, line 13, by striking the word
 4 "income".
 5 2. Page 1, line 14, by striking the word
 6 "income".
 7 3. Page 1, line 16, by striking the word
 8 "income".
 9 4. Page 1, line 18, by striking the word
 10 "income".

By JOCHUM of Dubuque

H-1839 FILED MAY 1, 2001

w/d
5/2/01 (p 1727)

SENATE FILE 516

H-1845

1 Amend Senate File 516, as amended, passed, and
 2 reprinted by the Senate, as follows:
 3 1. Page 1, by striking lines 1 through 9, and
 4 inserting the following:
 5 "Section 1. There is appropriated from the general
 6 fund of the state to the designated entities for the
 7 fiscal year beginning July 1, 2001, and ending June
 8 30, 2002, the following amounts to be used for the
 9 purposes designated:
 10 1. To the department of human services for use in
 11 the HAWK-I program:
 12 \$ 388,944
 13 2. To the Iowa department of public health for
 14 childhood immunizations:
 15 \$ 160,618
 16 3. To the Iowa department of public health for
 17 child and adolescent wellness:
 18 \$ 167,918
 19 4. To the Iowa department of public health for
 20 community capacity:
 21 \$ 182,520
 22 The appropriations made in this section are in
 23 addition to appropriations made in other Acts for the
 24 designated purposes."
 25 2. Page 1, line 10, by striking the words "AND
 26 RETROACTIVE APPLICABILITY".
 27 3. Page 1, by striking lines 18 through 20, and
 28 inserting the following: "income tax legislation."
 29 4. Title page, by striking line 1 through 5, and
 30 inserting the following: "An Act making
 31 appropriations to the departments of human services
 32 and public health and including a contingent effective
 33 date provision."

By KREIMAN of Davis

H-1845 FILED MAY 1, 2001

w/d
5/2/01 (p. 1726)

HOUSE AMENDMENT TO
SENATE FILE 516

S-3603

1 Amend Senate File 516, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, line 10, by striking the word
4 "RETROACTIVE".

5 2. Page 1, by striking lines 19 and 20, and
6 inserting the following: "applies to tax years
7 beginning on or after January 1, 2002."

8 3. Title page, line 4, by striking the word
9 "retroactive".

RECEIVED FROM THE HOUSE

S-3603 FILED MAY 2, 2001

Senate Concurred

5-7-01

(P. 1524)



THOMAS J. VILSACK
GOVERNOR

OFFICE OF THE GOVERNOR

SALLY J. PEDERSON
LT. GOVERNOR

May 31, 2001

The Honorable Chester Culver
Secretary of State
State Capitol
LOCAL

MAY 31 2001

Dear Secretary Culver:

I hereby transmit Senate File 516, an Act establishing a small business growth initiative by adjusting the allocation to Iowa of income earned by an s corporation for purposes of the state individual income tax and including an effective and applicability date provision.

I am unable to approve Senate File 516. In the past, I have supported changes in the method of taxation of S corporation income to shareholders to make it equitable to C corporations. S corporations have been a force in Iowa's economy by creating new jobs and opportunities for people in Iowa. I supported Senate File 2449 during the 1996 session and House File 306 during the 1997 session, which extended to S- corporation shareholders the same method of apportionment of income as afforded C corporations. Senate File 516 would complete the equity issue by allowing S corporation shareholders the one-hundred percent deduction for federal income taxes paid, the same as afforded C corporations.

While I support small business growth by adjusting taxes for S corporations to make them equitable with C corporations, we simply could not afford to do it this year. It is my hope the legislature will be couple this initiative next year with my venture capital proposal that will expand economic opportunity in Iowa.

For the above reasons, I hereby respectfully disapprove Senate File 516.

Sincerely,

Thomas J. Vilsack
Governor

TJV:jmc

CC: Secretary of the Senate
Chief Clerk of the House

legislation. If this Act takes effect, this Act applies to tax years beginning on or after January 1, 2002.

SENATE FILE 516

AN ACT

ESTABLISHING A SMALL BUSINESS GROWTH INITIATIVE BY ADJUSTING THE ALLOCATION TO IOWA OF INCOME EARNED BY AN S CORPORATION FOR PURPOSES OF THE STATE INDIVIDUAL INCOME TAX AND INCLUDING AN EFFECTIVE AND APPLICABILITY DATE PROVISION.

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

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

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

Sec. 2. EFFECTIVE AND APPLICABILITY PROVISION. This Act takes effect only if the revenue estimating conference estimates that, as a result of the enactment of federal income tax legislation prior to January 1, 2002, Iowa income tax receipts for the fiscal year beginning July 1, 2001, will be increased by \$7.9 million or more over the amount of Iowa income tax receipts which would have been realized in the absence of the enactment of such federal income tax

MARY E. KRAMER
President of the Senate

BRENT SIEGRIST
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 516, Seventy-ninth General Assembly.

Vilsack 5/31
Approved _____, 2001

MICHAEL E. MARSHALL
Secretary of the Senate

THOMAS J. VILSACK
Governor