

MAR 9 2005
WAYS AND MEANS

HOUSE FILE 689
BY KAUFMANN

(COMPANION TO SF 154 BY WIECK)

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

A BILL FOR

1 An Act providing for income tax credits for the cost of
2 purchasing health insurance coverage by certain small
3 employers and providing effective and retroactive
4 applicability dates.

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

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HF 689

1 Section 1. NEW SECTION. 422.11K SMALL EMPLOYER HEALTH
2 INSURANCE COVERAGE TAX CREDIT.

3 1. The taxes imposed under this division, less the credits
4 allowed under sections 422.12 and 422.12B, shall be reduced by
5 a small employer health insurance coverage tax credit. The
6 tax credit may be claimed by a small employer, as defined in
7 section 513B.2, that purchases health insurance coverage, as
8 defined in section 513B.2, for the small employer's employees
9 and their dependents for the first time. The amount of the
10 tax credit equals one hundred percent of the cost to the small
11 employer of purchasing the first year of the health insurance
12 coverage. The tax credit shall be taken over five tax years
13 as provided in subsection 2.

14 2. a. A small employer is entitled to claim twenty
15 percent of the amount of the small employer health insurance
16 coverage tax credit for the first tax year for which the
17 health insurance coverage is purchased and twenty percent of
18 the amount of the credit for each consecutive year thereafter
19 that the small employer continues to purchase health insurance
20 coverage for a total of five tax years. However, any credit
21 in excess of the tax liability for the tax year is
22 nonrefundable but may be credited to the tax liability for the
23 following seven years or until depleted, whichever is the
24 earlier.

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

35 3. An individual may claim a small employer health

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

7 Sec. 2. Section 422.33, Code 2005, is amended by adding
8 the following new subsection:

9 NEW SUBSECTION. 17. a. The taxes imposed under this
10 division shall be reduced by a small employer health insurance
11 coverage tax credit. The tax credit may be claimed by a small
12 employer, as defined in section 513B.2, that purchases health
13 insurance coverage, as defined in section 513B.2, for the
14 small employer's employees and their dependents for the first
15 time. The amount of the tax credit equals one hundred percent
16 of the cost to the small employer of purchasing the first year
17 of such health insurance coverage. The credit shall be taken
18 over five tax years as provided in paragraph "b".

19 b. (1) A small employer is entitled to claim twenty
20 percent of the amount of the small employer health insurance
21 coverage tax credit for the first tax year for which the
22 health insurance coverage is purchased and twenty percent of
23 the amount of the credit for each consecutive year thereafter
24 that the small employer continues to purchase the health
25 insurance coverage for a total of five tax years. However,
26 any credit in excess of the tax liability for the tax year is
27 nonrefundable but may be credited to the tax liability for the
28 following seven years or until depleted, whichever is the
29 earlier.

30 (2) If a small employer that has claimed the small
31 employer health insurance coverage tax credit is merged with
32 another business or is divided into separate businesses, any
33 resulting business which is at least fifteen percent directly
34 or indirectly owned or controlled by the owners or controllers
35 of the original small employer, is entitled to claim any

1 amounts of the small employer health insurance coverage credit
2 that remain so long as the resulting business continues to
3 purchase the health insurance coverage during each tax year
4 for which the credit is claimed.

5 Sec. 3. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES.

6 This Act, being deemed of immediate importance, takes effect
7 upon enactment and applies retroactively to January 1, 2005,
8 for tax years beginning on or after that date.

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EXPLANATION

10 This bill provides an individual and corporate income tax
11 credit for a small employer that purchases health insurance
12 coverage for its employees and their dependents for the first
13 time.

14 A small employer is defined as a person actively engaged in
15 business, who, on at least 50 percent of the employer's
16 working days during the preceding year, employed not less than
17 two and not more than 50 full-time equivalent eligible
18 employees. In determining the number of eligible employees,
19 companies which are affiliated companies or which are eligible
20 to file a combined tax return for purposes of state taxation
21 are considered one employer.

22 "Health insurance coverage" is defined to mean benefits
23 consisting of health care provided directly through insurance
24 or reimbursement, or otherwise, and including items and
25 services paid for as health care under a hospital or health
26 service policy or certificate, hospital or health service plan
27 contract, or health maintenance organization contract offered
28 by a carrier.

29 The amount of the credit equals 100 percent of the first
30 year's cost to a small employer of purchasing health insurance
31 coverage for its employees and their dependents for the first
32 time. A small employer is entitled to claim 20 percent of the
33 amount of the small employer health insurance coverage credit
34 for the first tax year for which the health insurance coverage
35 is purchased and 20 percent of the amount of the credit for

1 each consecutive year thereafter that the small employer
2 continues to purchase the health insurance coverage for a
3 total of five tax years.

4 The bill takes effect upon enactment and applies
5 retroactively to January 1, 2005, for tax years beginning on
6 or after that date.

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