

House Study Bill 284

HOUSE FILE _____
 BY (PROPOSED COMMITTEE ON
 WAYS AND MEANS BILL BY
 CHAIRPERSON SHOMSHOR)

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

A BILL FOR

1 An Act relating to the individual income tax by providing for
 2 reduced tax rates, the elimination of federal deductibility,
 3 increasing the credits for elderly and blind individuals,
 4 increasing the amount of the earned income tax credit, and
 5 adjusting the eligibility for the child and dependent care tax
 6 credit and early childhood development tax credit and
 7 including a retroactive applicability date provision.
 8 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
 9 TLSB 2673YC 83
 10 tw/mg:sc/14

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1 1 Section 1. Section 422.4, subsection 1, paragraphs b and
 1 2 c, Code 2009, are amended to read as follows:
 1 3 b. "Cumulative inflation factor" means the product of the
 1 4 annual inflation factor for the ~~1988~~ 2009 calendar year and
 1 5 all annual inflation factors for subsequent calendar years as
 1 6 determined pursuant to this subsection. The cumulative
 1 7 inflation factor applies to all tax years beginning on or
 1 8 after January 1 of the calendar year for which the latest
 1 9 annual inflation factor has been determined.
 1 10 c. The annual inflation factor for the ~~1988~~ 2009 calendar
 1 11 year is one hundred percent.
 1 12 Sec. 2. Section 422.4, subsection 16, Code 2009, is
 1 13 amended to read as follows:
 1 14 16. The words "taxable income" mean the net income as
 1 15 defined in section 422.7 minus the deductions allowed by
 1 16 section 422.9, in the case of individuals; in the case of
 1 17 estates or trusts, the words "taxable income" mean the taxable
 1 18 income (without a deduction for personal exemption) as
 1 19 computed for federal income tax purposes under the Internal
 1 20 Revenue Code, but with the adjustments specified in section
 1 21 422.7 plus the Iowa income tax deducted in computing the
 1 22 federal taxable income ~~and minus federal income taxes as~~
 1 23 ~~provided in section 422.9.~~
 1 24 Sec. 3. Section 422.5, subsection 1, paragraphs a through
 1 25 i, Code 2009, are amended to read as follows:
 1 26 For tax years beginning
 1 27 in the calendar year:
 1 28 2009 2010 and
 1 29 subsequent
 1 30 calendar years
 1 31 a. On all taxable income from
 1 32 zero through one thousand four
 1 33 hundred seven dollars, ~~thirty-six~~

1 34	hundredths of one percent.:	0.30%	0.31%
1	35 b. On all taxable income		
2	1 exceeding one thousand four hundred		
2	2 seven dollars but not exceeding two		
2	3 thousand eight hundred fourteen		
2	4 dollars, seventy-two hundredths of		
2 5	one percent.:	0.59%	0.60%
2	6 c. On all taxable income		
2	7 exceeding two thousand eight hundred		
2	8 fourteen dollars but not exceeding		
2	9 four five thousand six hundred		
2	10 twenty-eight dollars,		
2 11	two and forty-three hundredths		
2 12	percent.:	1.95%	2.00%
2	13 d. On all taxable income		
2	14 exceeding four five thousand six		
2	15 hundred twenty-eight dollars but		
2	16 not exceeding nine twelve thousand		
2	17 six hundred sixty-three dollars,		
2 18	four and one-half percent.:	4.18%	4.28%
2	19 e. On all taxable income		
2	20 exceeding nine twelve thousand		
2	21 six hundred sixty-three dollars but		
2	22 not exceeding fifteen twenty-one		
2	23 thousand one hundred five dollars,		
2 24	six and twelve hundredths		
2 25	percent.:	5.42%	5.56%
2	26 f. On all taxable income		
2	27 exceeding fifteen twenty-one		
2	28 thousand one hundred five dollars		
2	29 but not exceeding twenty twenty-eight		
2	30 thousand one hundred forty dollars,		
2 31	six and forty-eight hundredths		
2 32	percent.:	5.42%	5.56%
2	33 g. On all taxable income		
2	34 exceeding twenty twenty-eight		
2	35 thousand one hundred forty dollars		
3	1 but not exceeding thirty forty-two		
3	2 thousand two hundred ten dollars,		
3 3	six and eight-tenths percent.:	5.73%	5.87%
3	4 h. On all taxable income		
3	5 exceeding thirty forty-two thousand		
3	6 two hundred ten dollars but not		
3	7 exceeding forty-five sixty-three		
3	8 thousand three hundred fifteen		
3	9 dollars, seven and ninety-two		
3 10	hundredths percent.:	6.16%	6.30%
3	11 i. On all taxable income		
3	12 exceeding forty-five sixty-three		
3	13 thousand three hundred fifteen		
3	14 dollars, eight and ninety-eight		
3 15	hundredths percent.:	6.98%	6.98%
3	16 Sec. 4. Section 422.9, subsection 2, paragraph b, Code		
3	17 2009, is amended to read as follows:		
3	18 b. Add the amount of federal income taxes paid or accrued,		
3 19	as the case may be, during the tax year and subtract any		
3 20	federal income tax refunds received during the tax year. Add		
3	21 the amount of federal income taxes paid in a tax year		
3	22 beginning on or after January 1, 2009, but before January 1,		
3	23 2010, to the extent payment is for a tax year beginning prior		
3	24 to January 1, 2009. Subtract the amount of federal income tax		
3	25 refunds received in a tax year beginning on or after January		
3	26 1, 2009, but before January 1, 2010, to the extent that the		
3	27 federal income tax was deducted on an Iowa individual income		
3	28 tax return for a tax year beginning prior to January 1, 2009.		

3 29 Where married persons, who have filed a joint federal income
3 30 tax return, file separately, such total shall be divided
3 31 between them according to the portion of the total paid or
3 32 accrued, as the case may be, by each. Federal income taxes
3 33 paid for a tax year in which an Iowa return was not required
3 34 to be filed shall not be added and federal income tax refunds
3 35 received from a tax year in which an Iowa return was not
4 1 required to be filed shall not be subtracted.

4 2 Sec. 5. Section 422.12, subsection 1, paragraphs d and e,
4 3 Code 2009, are amended to read as follows:

4 4 d. For a single individual, husband, wife, or head of
4 5 household, an additional exemption of ~~twenty~~ forty dollars for
4 6 each of said individuals who has attained the age of
4 7 sixty=five years before the close of the tax year or on the
4 8 first day following the end of the tax year.

4 9 e. For a single individual, husband, wife, or head of
4 10 household, an additional exemption of ~~twenty~~ forty dollars for
4 11 each of said individuals who is blind at the close of the tax
4 12 year. For the purposes of this paragraph, an individual is
4 13 blind only if the individual's central visual acuity does not
4 14 exceed twenty=two hundredths in the better eye with correcting
4 15 lenses, or if the individual's visual acuity is greater than
4 16 twenty=two hundredths but is accompanied by a limitation in
4 17 the fields of vision such that the widest diameter of the
4 18 visual field subtends an angle no greater than twenty degrees.

4 19 Sec. 6. Section 422.12B, subsection 1, Code 2009, is
4 20 amended to read as follows:

4 21 1. The taxes imposed under this division less the credits
4 22 allowed under section 422.12 shall be reduced by an earned
4 23 income credit equal to ~~seven~~ eight percent of the federal
4 24 earned income credit provided in section 32 of the Internal
4 25 Revenue Code. Any credit in excess of the tax liability is
4 26 refundable.

4 27 Sec. 7. Section 422.12C, subsection 1, Code 2009, is
4 28 amended to read as follows:

4 29 1. a. The taxes imposed under this division, less the
4 30 amounts of nonrefundable credits allowed under this division,
4 31 shall be reduced by a child and dependent care credit equal to
4 32 the following percentages of the federal child and dependent
4 33 care credit provided in section 21 of the Internal Revenue
4 34 Code:

4 35 ~~a.~~ (1) For a taxpayer with net income of less than ten
5 1 thousand dollars, ~~seventy=five~~ eighty percent.

5 2 ~~b.~~ (2) For a taxpayer with net income of ten thousand
5 3 dollars or more but less than twenty thousand dollars,
5 4 ~~sixty=five~~ seventy percent.

5 5 ~~c.~~ (3) For a taxpayer with net income of twenty thousand
5 6 dollars or more but less than twenty=five thousand dollars,
5 7 ~~fifty=five~~ sixty percent.

5 8 ~~d.~~ (4) For a taxpayer with net income of twenty=five
5 9 thousand dollars or more but less than thirty=five thousand
5 10 dollars, ~~fifty~~ fifty=five percent.

5 11 ~~e.~~ (5) For a taxpayer with net income of thirty=five
5 12 thousand dollars or more but less than forty thousand dollars,
5 13 ~~forty~~ forty=five percent.

5 14 ~~f.~~ (6) For a taxpayer with net income of forty thousand
5 15 dollars or more but less than forty=five thousand dollars,
5 16 ~~thirty~~ thirty=five percent.

5 17 ~~g.~~ (7) For a taxpayer with net income of forty=five
5 18 thousand dollars or more, ~~zero~~ but less than fifty thousand
5 19 dollars, thirty percent.

5 20 (8) For a taxpayer with net income of fifty thousand
5 21 dollars or more, zero percent.

5 22 b. (1) For the tax year beginning in the 2010 calendar
5 23 year and for each subsequent tax year, the dollar amounts set

5 24 forth in paragraph "a", subparagraphs (1) through (8), shall
5 25 be multiplied by the cumulative adjustment factor for that tax
5 26 year. "Cumulative adjustment factor" means the product of the
5 27 annual adjustment factor for the 2009 tax year and all annual
5 28 adjustment factors for subsequent tax years. The cumulative
5 29 adjustment factor applies to the tax year beginning in the
5 30 calendar year for which the latest annual adjustment factor
5 31 has been determined.

5 32 (2) The annual adjustment factor for the 2009 tax year is
5 33 one hundred percent. For each subsequent tax year, the annual
5 34 adjustment factor equals the annual inflation factor for the
5 35 calendar year, in which the tax year begins, as computed in
6 1 section 422.4 for purposes of the individual income tax.

6 2 (3) The director shall determine for the 2010 tax year and
6 3 each subsequent tax year the annual and cumulative adjustment
6 4 factor for that tax year. The annual and cumulative
6 5 adjustment factors determined by the director are not rules as
6 6 defined in section 17A.2, subsection 11.

6 7 Sec. 8. Section 422.12C, subsection 2, unnumbered
6 8 paragraph 1, Code 2009, is amended to read as follows:

6 9 The taxes imposed under this division, less the amounts of
6 10 nonrefundable credits allowed under this division, may be
6 11 reduced by an early childhood development tax credit equal to
6 12 twenty-five percent of the first one thousand dollars which
6 13 the taxpayer has paid to others for each dependent, as defined
6 14 in the Internal Revenue Code, ages three through five for
6 15 early childhood development expenses. In determining the
6 16 amount of early childhood development expenses for the tax
6 17 year beginning in the 2006 calendar year only, such expenses
6 18 paid during November and December of the previous tax year
6 19 shall be considered paid in the tax year for which the tax
6 20 credit is claimed. This credit is available to a taxpayer
6 21 whose net income is less than ~~forty-five~~ fifty thousand
6 22 dollars. If the early childhood development tax credit is
6 23 claimed for a tax year, the taxpayer and the taxpayer's spouse
6 24 shall not claim the child and dependent care credit under
6 25 subsection 1. As used in this subsection, "early childhood
6 26 development expenses" means services provided to the dependent
6 27 by a preschool, as defined in section 237A.1, materials, and
6 28 other activities as follows:

6 29 Sec. 9. Section 422.21, unnumbered paragraph 5, Code 2009,
6 30 is amended to read as follows:

6 31 The director shall determine for the ~~1989~~ 2010 and each
6 32 subsequent calendar year the annual and cumulative inflation
6 33 factors for each calendar year to be applied to tax years
6 34 beginning on or after January 1 of that calendar year. The
6 35 director shall compute the new dollar amounts as specified to
7 1 be adjusted in section 422.5 by the latest cumulative
7 2 inflation factor and round off the result to the nearest one
7 3 dollar. The annual and cumulative inflation factors
7 4 determined by the director are not rules as defined in section
7 5 17A.2, subsection 11. The director shall determine for the
7 6 1990 calendar year and each subsequent calendar year the
7 7 annual and cumulative standard deduction factors to be applied
7 8 to tax years beginning on or after January 1 of that calendar
7 9 year. The director shall compute the new dollar amounts of
7 10 the standard deductions specified in section 422.9, subsection
7 11 1, by the latest cumulative standard deduction factor and
7 12 round off the result to the nearest ten dollars. The annual
7 13 and cumulative standard deduction factors determined by the
7 14 director are not rules as defined in section 17A.2, subsection
7 15 11.

7 16 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies
7 17 retroactively to January 1, 2009, for tax years beginning on
7 18 or after that date.

7 19

EXPLANATION

7 20 This bill makes the following changes to the individual
7 21 income tax: (1) changes the tax rate on each of the current
7 22 income tax brackets for tax years 2009 and 2010 and subsequent
7 23 years; (2) eliminates the ability to deduct federal income
7 24 taxes paid and the requirement to include federal tax refunds;
7 25 (3) raises the tax credit for blind individuals and the tax
7 26 credit for elderly individuals from \$20 to \$40; (4) increases
7 27 the amount of the earned income tax credit that may be claimed
7 28 from 7 percent to 8 percent of the amount of the federal
7 29 credit; and (5) adjusts the child and dependent care tax
7 30 credit eligibility by indexing the income thresholds to
7 31 inflation, increasing by 5 percentage points the amount of the
7 32 federal tax credit that each income level may claim, and
7 33 creating a new threshold level for taxpayers earning \$45,000
7 34 or more per year but less than \$50,000.

7 35 Current law provides for an early childhood development tax
8 1 credit equal to twenty-five percent of the first one thousand
8 2 dollars which the taxpayer has paid to others for each
8 3 dependent. The credit is limited to taxpayers earning less
8 4 than \$45,000. A taxpayer claiming the credit cannot also claim
8 5 the child and dependent care credit. The bill changes the
8 6 income eligibility limit for the early childhood development
8 7 tax credit to \$50,000.

8 8 The new income tax rates for tax year 2009 are as follows:

8 9 (1) on all taxable income from zero through \$1,407, 0.30
8 10 percent; (2) on all taxable income exceeding \$1,407 but not
8 11 exceeding \$2,814, 0.59 percent; (3) on all taxable income
8 12 exceeding \$2,814 but not exceeding \$5,628, 1.95 percent; (4)
8 13 on all taxable income exceeding \$5,628 but not exceeding
8 14 \$12,663, 4.18 percent; (5) on all taxable income exceeding
8 15 \$12,663 but not exceeding \$21,105, 5.42 percent; (6) on all
8 16 taxable income exceeding \$21,105 but not exceeding \$28,140,
8 17 5.42 percent; (7) on all taxable income exceeding \$28,140 but
8 18 not exceeding \$42,210, 5.73 percent; (8) on all taxable income
8 19 exceeding \$42,210 but not exceeding \$63,315, 6.16 percent; and
8 20 (9) on all taxable income exceeding \$63,315, 6.98 percent.

8 21 The new income tax rates for tax year 2010 are as follows:

8 22 (1) on all taxable income from zero through \$1,407, 0.31
8 23 percent; (2) on all taxable income exceeding \$1,407 but not
8 24 exceeding \$2,814, 0.60 percent; (3) on all taxable income
8 25 exceeding \$2,814 but not exceeding \$5,628, 2.0 percent; (4) on
8 26 all taxable income exceeding \$5,628 but not exceeding \$12,663,
8 27 4.28 percent; (5) on all taxable income exceeding \$12,663 but
8 28 not exceeding \$21,105, 5.56 percent; (6) on all taxable income
8 29 exceeding \$21,105 but not exceeding \$28,140, 5.56 percent; (7)
8 30 on all taxable income exceeding \$28,140 but not exceeding
8 31 \$42,210, 5.87 percent; (8) on all taxable income exceeding
8 32 \$42,210 but not exceeding \$63,315, 6.30 percent; and (9) on
8 33 all taxable income exceeding \$63,315, 6.98 percent. However,
8 34 these bracket amounts will be adjusted annually for inflation.

8 35 The bill applies retroactively to January 1, 2009, for tax
9 1 years beginning on or after that date.

9 2 LSB 2673YC 83

9 3 tw/mg:sc/14.1