



Bill Summary

HF 2417 Federal Rebate Tax Exemption

Status of Bill: House Calendar
Committee: Ways & Means (24-0)
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HF 2417 exempts from state income taxes all rebates under U.S. House Resolution 5140, the Recovery Rebates and Economic Stimulus for the American People Act of 2008. This will save Iowa taxpayers \$67.5 million.

Summary of Federal Rebate Law

The U.S. Treasurer will start sending rebate checks to 130 million taxpayers in May, with payments continuing through summer. There are no extra forms to file, as most taxpayers need only file their 2007 federal tax return. The Internal Revenue Service (IRS) will automatically determine eligibility, the amount and issue the payment.

Rebate Eligibility

1. In most cases, the rebate will equal the tax liability on the 2007 tax return up to a maximum \$600 for individuals or \$1,200 on a joint return. The minimum rebate is \$300 or \$600 for a joint return.
2. Rebates are cut by 5% of the amount of income exceeding \$75,000 for individuals (\$150,000 joint returns).
3. Those with little or no tax liability may qualify for the minimum \$300 rebate (\$600 on a joint return), if their tax return shows at least \$3,000 in qualifying income.
4. Qualifying income includes wages, self-employment income, Social Security, Railroad Retirement benefits, veterans' disability, or Department of Veterans' Affairs pension or survivors benefits. However, Supplemental Security Income (SSI) does not count as qualifying income for the rebate.
5. Low-income persons earning enough qualifying income who are normally not required to file a tax return, must file a 2007 return to receive the minimum rebate.

Extra Per-Child Rebate:

Parents will get an extra \$300 rebate for each child that is eligible for the Child Tax Credit (subject to high income phase-outs).

No Rebate Penalty

Rebate income will not cause a tax liability for low-income filers or negatively impact any income-based government benefits, such as Social Security, food stamps and other programs.

Social Security # Required

Taxpayers must have valid Social Security Numbers, including those using Individual Taxpayer ID Numbers, an Adoption Taxpayer ID number or any other IRS issued ID number. Both individuals listed on a joint return must also have valid Social Security Numbers, as do any children for whom an extra rebate is claimed.

Special Circumstances

1. Individuals who receive Social Security benefits, Railroad Retirement benefits and certain veterans' benefits may have to follow special filing requirements in order to receive the basic amount.
2. Those that already filed a 2007 return showing less than \$3,000 in qualifying income, but did not list Social Security benefits, or other qualifying income, should file a Form 1040X to list those income sources.

Two IRS Notices

Most taxpayers will get two IRS notices. The first will explain the rebate program. The second will confirm eligibility, the payment amount and the approximate time table for the payment.

Exclusions

1. Residents of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, and nonresident aliens are not eligible. Residents of U.S. possessions will receive rebates directly from the possessions.
2. Individuals that can be claimed as dependents on someone else's return are not eligible.

IRS Information: The best source for additional information and answers to questions regarding the stimulus payments is the IRS Web site <http://www.irs.gov/irs/article/0,,id=177937,00.html> .

Amendment summary

[WITDRAWN]

H-8051 by Rants (R-Woodbury) –Includes Economic Stimulus Act: The amendment couples with federal tax changes through February 14, 2008, rather than January 1, 2008. February 14, 2008 is the date President Bush signed U.S. House Resolution 5140 – the Recovery Rebates and Economic Stimulus for the American People Act of 2008, which does the following:

1. **Tax Rebates:** Described in earlier in bill summary.
2. **Business Incentives - Just for Tax Year 2008:**
 - The Section 179 expensing allowance for depreciable business assets increases from \$128,000 to \$250,000, and the maximum investment limitation increases from \$510,000 to \$800,000.
 - The bonus depreciation - the amount of the adjusted basis of certain depreciable property (e.g., equipment and computer software) that may be claimed as a deductible expense in 2008 increases from 30% to 50%.
3. **Mortgage Programs:**
 - Raises the ceiling on the maximum original principal of a mortgage originated between July 1, 2007, and December 31, 2008, that may be purchased by either the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac).
 - Congress's intent is that Fannie Mae and Freddie Mac securitize mortgages under the increased loan limits of this Act unless it adds to mortgage costs or interferes with liquidity to the market.
 - Establishes a temporary loan limit increase for FHA-insured mortgages in specified high-cost areas for which a borrower received credit approval by December 31, 2008.
 - Grants the Secretary of Housing and Urban Development (HUD) discretionary authority to increase loan limits in 2008 based upon the size and location of residences in particular areas, and directs the Secretary to publish the median house prices and mortgage principal obligation limits as revised by this Act not later than 30 days after its enactment.
4. **Fiscal Impact - Only the Business Incentives in Item 3 Cause a Revenue Loss:**
 - Over the long term – this is theoretically a wash. The federal stimulus bill “frontloads” tax deductions that a business would otherwise take in later years – over the life of the depreciation schedule used – but the Department of Revenue (IDR) analysis shows a \$14.59 million loss over ten years.
 - Revenues decline by \$60.84 million over three years: by \$15.87million in FY 09; by \$40.41 million in FY 10, and by \$4.56 million in FY 11.
 - Revenues then increase by only \$47.25 million over the next seven years: by \$12.35 million in FY 12; by \$10.63 million in FY 13; by \$8.96 million in FY 14; by \$6.72 million in FY 15; by \$4.34 million in FY 16, by \$2.64 million in FY 17; and by \$1.6 million in FY 18.

WHAT WILL OTHER STATES DO?

1. This type of federal action is difficult for many states to deal with, as it occurs well into their budget development process and during economic downturns when revenue growth is soft or nonexistent.
2. In 2003 – when Iowa failed to couple with similar provisions - the Federation of Tax Administrators reported that 13 states (including Iowa) without automatic coupling did not couple, 15 states (including Missouri, Illi-

nois, and Wisconsin) with automatic coupling passed legislation to decouple, 4 states (including Nebraska, and Minnesota) required businesses to fully or partially add-back the value of these incentives, and Kansas increased its corporate franchise tax and some fees to offset revenue lost due to these incentives.

3. Today: The Federation of Tax Administrators has been polling other state's activity and of the 19 states that had responded as of February 26, 2008:

- Bonus Depreciation:
 - 5 states (Nebraska, Louisiana, Michigan, Utah, & West Virginia) said they probably will couple.
 - 6 states (California, Kansas, New Jersey, North Carolina, Oklahoma, & Oregon) were undecided.
 - 6 states (Arizona, Illinois, Maine, Minnesota, Ohio, & Vermont) said they probably will not couple.
 - 2 states (Massachusetts and New York) said they definitely will not couple.
- Section 179 Expensing:
 - 6 states (Nebraska, Louisiana, Michigan, Utah, West Virginia, & Vermont) said they probably will couple.
 - 7 states (California, Kansas, New Jersey, New York North Carolina, Oklahoma, & Oregon) were undecided.
 - 5 states (Arizona, Illinois, Minnesota, Ohio, & Pennsylvania) said they probably will not couple.
 - 1 state (Maine) said it definitely will not couple.
- Bonus Depreciation: Just as in 2003 – when all is said and done, its likely lots of state will not couple or will only partially couple with these provisions.

[NOT GERMANE – RULES SUSPENSION LOST 46-52]

H-8052 by Van Fossen (R-Scott) –Phases Out of Taxes on All Pension Benefits: Under current law, the first \$6,000 (\$12,000 on a joint return) of any pension income is exempt from tax. This includes, but is not limited to, income from defined benefit or contribution plans, annuities, IRAs, plans maintained or contributed to by an employer or self-employed person as an employer, or deferred compensation plans.

The amendment would phase out taxes on these types of pensions as follows: for the 2009 tax year, the tax is cut by 20%; for the 2010 tax year, the tax is cut by 40%; for the 2011 tax year, the tax is cut by 60%; for the 2012 tax year, the tax is cut by 80%; for the 2013 and subsequent tax years, the tax is totally repealed.

[ADOPTED VOICE VOTE]

H-8049 by Smith (D-Marshall) –No Penalty for Residents of Iowa Veterans Home: The federal stimulus law states that rebates shall not be considered income for purposes of determining eligibility for federal and federally-assisted state benefit programs.

Iowa chapter 35D has provisions regarding admission to the Iowa veterans Home for those lacking resources and for residents with sufficient means to contribute toward their own support at the home. This amendment states that notwithstanding any provision of or administrative rule adopted pursuant to chapter 35D, income tax rebates provided pursuant to the federal Recovery Rebates and Economic Stimulus for the American People Act of 2008, Pub. L. No. 110-185, shall not be considered for purposes of determining eligibility for admission to the Iowa Veterans Home and shall not be considered for determining whether a resident of the Iowa Veterans Home should contribute to the resident's own support.