

1 INDIVIDUAL INCOME TAX - PERSONAL

2 EXEMPTIONS

3 2000 GENERAL SESSION

4 STATE OF UTAH

5 Sponsor: Howard C. Nielson

6 AN ACT RELATING TO THE INDIVIDUAL INCOME TAX ACT; ELIMINATING OVER A
7 FIVE-YEAR PERIOD THE ADDITION TO INCOME OF 25% OF A TAXPAYER'S FEDERAL
8 PERSONAL EXEMPTIONS; MAKING TECHNICAL CHANGES; AND PROVIDING FOR
9 RETROSPECTIVE OPERATION.

10 This act affects sections of Utah Code Annotated 1953 as follows:

11 AMENDS:

12 59-10-114, as last amended by Chapters 60, 131, 240 and 282, Laws of Utah 1999

13 *Be it enacted by the Legislature of the state of Utah:*

14 Section 1. Section 59-10-114 is amended to read:

15 59-10-114. Additions to and subtractions from federal taxable income of an
16 individual.

17 (1) There shall be added to the federal taxable income of a resident or nonresident
18 individual:

19 (a) to the extent deducted from federal adjusted gross income as defined by Section 62,
20 Internal Revenue Code, in determining federal taxable income, the amount of any income tax
21 imposed by:

22 (i) ~~this [or any predecessor Utah individual income tax law and the amount of any income~~
23 ~~tax imposed by] chapter; or~~

24 (ii) the laws of:

25 (A) another state[;];

26 (B) the District of Columbia[;]; or

27 (C) a possession of the United States[; ~~to the extent deducted from federal adjusted gross~~

28 income, as defined by Section 62, Internal Revenue Code, in determining federal taxable income];

29 (b) a lump sum distribution allowable as a deduction under Section ~~[402(e)(3)]~~ 402(d)(3),
30 Internal Revenue Code, to the extent deductible under Section 62(a)(8), Internal Revenue Code,
31 in determining federal adjusted gross income;

32 (c) ~~[25% of the personal exemptions, as defined and calculated in the Internal Revenue~~
33 Code] the amount of personal exemptions provided for under Subsection (3);

34 (d) a withdrawal from a medical care savings account and any penalty imposed in the
35 taxable year if:

36 (i) the ~~[taxpayer]~~ individual did not deduct or include the amounts on ~~[his]~~ the individual's
37 federal tax return pursuant to Section 220, Internal Revenue Code; and

38 (ii) the withdrawal is subject to Subsections 31A-32a-105(1) and (2); and

39 (e) the amount refunded to a participant under Title 53B, Chapter 8a, Higher Education
40 Savings Incentive Program, in the year in which the amount is refunded.

41 (2) There shall be subtracted from federal taxable income of a resident or nonresident
42 individual:

43 (a) (i) to the extent the interest or dividends are includable in gross income for federal
44 income tax purposes but exempt from state income taxes under the laws of the United States, [the]
45 interest or dividends on obligations or securities of:

46 (A) the United States ~~[and]~~ or its possessions; or ~~[of any]~~

47 (B) an authority, commission, or instrumentality of the United States~~[- to the extent~~
48 includable in gross income for federal income tax purposes but exempt from state income taxes
49 under the laws of the United States, but]; and

50 (ii) the amount subtracted under ~~[this]~~ Subsection (2)(a)(i) shall be reduced by any:

51 (A) interest on indebtedness incurred or continued to purchase or carry the obligations or
52 securities described in ~~[this]~~ Subsection~~[-;~~ (2)(a)(i); and [by any]

53 (B) expenses incurred in the production of interest or dividend income described in ~~[this]~~
54 Subsection (2)(a)(i) to the extent that ~~[such]~~ the expenses, including amortizable bond premiums,
55 are deductible in determining federal taxable income;

56 (b) 1/2 of the net amount of any income tax paid or payable to the United States after
57 subtracting all allowable credits, as reported on the United States individual income tax return of
58 the ~~[taxpayer]~~ individual for the same taxable year;

59 (c) the amount of adoption expenses which, for purposes of this subsection, means any
60 actual medical and hospital expenses of the mother of the adopted child which are incident to the
61 child's birth and any welfare agency, child placement service, legal, and other fees or costs relating
62 to the adoption;

63 (d) subject to Subsection (4), amounts received by [~~taxpayers~~] an individual under age 65
64 as retirement income which, for purposes of this section, means pensions and annuities, paid from
65 an annuity contract;

66 (i) purchased by:

67 (A) an employer under a plan which meets the requirements of Section 404 (a)(2), Internal
68 Revenue Code[~~;~~]; or [~~purchased by~~]

69 (B) an employee under a plan which meets the requirements of Section 408, Internal
70 Revenue Code[~~;~~]; or

71 (ii) paid to an employee or the employee's surviving spouse by:

72 (A) the United States[~~;~~];

73 (B) a state[~~, or~~];

74 (C) a political subdivision [~~thereof;~~] of a state; or

75 (D) the District of Columbia[~~, to the employee involved or the surviving spouse~~];

76 (e) subject to Subsection (4), for each [~~taxpayer~~] individual age 65 or over before the close
77 of the taxable year, a \$7,500 personal retirement exemption;

78 (f) 75% of the amount of the personal exemption, as defined and calculated in the Internal
79 Revenue Code, for each dependent child with a disability and adult with a disability who is
80 claimed as a dependent on [~~a taxpayer's~~] an individual's return;

81 (g) any amount included in federal taxable income that was received pursuant to any
82 federal law enacted in 1988 to provide reparation payments, as damages for human suffering, to
83 United States citizens and resident aliens of Japanese ancestry who were interned during World
84 War II;

85 (h) subject to [~~the limitations of~~] Subsection [(3)(e)] (5), amounts [~~a taxpayer~~] an
86 individual pays during the taxable year for health care insurance, as defined in Title 31A, Chapter
87 1, General Provisions:

88 (i) for:

89 (A) the [~~taxpayer~~] individual;

90 (B) the [taxpayer's] individual's spouse; and

91 (C) the [taxpayer's] individual's dependents; and

92 (ii) to the extent the [taxpayer] individual does not deduct the amounts under Section 125,
93 162, or 213, Internal Revenue Code, in determining federal taxable income for the taxable year;

94 (i) [~~except as otherwise provided in this subsection~~] subject to Subsection (6), the amount
95 of;

96 (i) a contribution made [~~in the tax year~~] on behalf of [~~the taxpayer~~] an individual to a
97 medical care savings account; and

98 (ii) interest earned on a contribution to a medical care savings account established pursuant
99 to Title 31A, Chapter [32] 32a, Medical Care Savings Account Act[~~, to the extent the contribution~~
100 ~~is accepted by the account administrator as provided in the Medical Care Savings Account Act,~~
101 ~~and if the taxpayer did not deduct or include amounts on his federal tax return pursuant to Section~~
102 ~~220, Internal Revenue Code. A contribution deductible under this subsection may not exceed~~
103 ~~either of the following:~~];

104 [~~(i) the maximum contribution allowed under the Medical Care Savings Account Act for~~
105 ~~the tax year multiplied by two for taxpayers who file a joint return, if neither spouse is covered by~~
106 ~~health care insurance as defined in Section 31A-1-301 or self-funded plan that covers the other~~
107 ~~spouse, and each spouse has a medical care savings account; or]~~

108 [~~(ii) the maximum contribution allowed under the Medical Care Savings Account Act for~~
109 ~~the tax year for taxpayers:~~]

110 [~~(A) who do not file a joint return; or]~~

111 [~~(B) who file a joint return, but do not qualify under Subsection (2)(i)(i); and]~~

112 (j) the amount included in federal taxable income that was derived from money paid by
113 the [taxpayer] individual to the program fund under Title 53B, Chapter 8a, Higher Education
114 Savings Incentive Program, not to exceed amounts determined under Subsection 53B-8a-106(1)(d)
115 and investment income earned on participation agreements under Subsection 53B-8a-106(1) when
116 used for higher education costs of the beneficiary; and

117 (k) for [tax] taxable years beginning on or after January 1, 2000, any amounts paid for
118 premiums [on] for long-term care insurance [policies] as defined in Section 31A-22-1402 to the
119 extent the amounts paid for long-term care insurance were not deducted under Section 213,
120 Internal Revenue Code, in determining federal taxable income.

121 (3) (a) For purposes of Subsection (1)(c) and this Subsection (3), "personal exemptions"
122 means the total dollar amount of personal exemptions a resident or nonresident individual may
123 claim:

124 (i) under Section 151, Internal Revenue Code; and

125 (ii) for:

126 (A) the individual;

127 (B) the individual's spouse; and

128 (C) the individual's dependents.

129 (b) For purposes of Subsection (1)(c), a resident or nonresident individual shall add the
130 following amounts to the individual's federal taxable income:

131 (i) for the taxable year beginning on or after January 1, 2000, but beginning on or before
132 December 31, 2000, 25% of the individual's personal exemptions;

133 (ii) for the taxable year beginning on or after January 1, 2001, but beginning on or before
134 December 31, 2001, 20% of the individual's personal exemptions;

135 (iii) for the taxable year beginning on or after January 1, 2002, but beginning on or before
136 December 31, 2002, 15% of the individual's personal exemptions;

137 (iv) for the taxable year beginning on or after January 1, 2003, but beginning on or before
138 December 31, 2003, 10% of the individual's personal exemptions;

139 (v) for the taxable year beginning on or after January 1, 2004, but beginning on or before
140 December 31, 2004, 5% of the individual's personal exemptions; and

141 (vi) for taxable years beginning on or after January 1, 2005, the individual may not be
142 required to add any personal exemptions to the individual's federal taxable income.

143 ~~[(3)]~~ (4) (a) For purposes of Subsection (2)(d), the amount of retirement income subtracted
144 for [taxpayers] an individual under 65 shall be the lesser of the amount included in federal taxable
145 income, or \$4,800, except that:

146 (i) for married [taxpayers] individuals filing joint returns, for each \$1 of adjusted gross
147 income earned over \$32,000, the amount of the retirement income exemption that may be
148 subtracted shall be reduced by 50 cents;

149 (ii) for married [taxpayers] individuals filing separate returns, for each \$1 of adjusted gross
150 income earned over \$16,000, the amount of the retirement income exemption that may be
151 subtracted shall be reduced by 50 cents; and

152 (iii) for ~~[individual taxpayers]~~ an individual filing as a single taxpayer, for each \$1 of
153 adjusted gross income earned over \$25,000, the amount of the retirement income exemption that
154 may be subtracted shall be reduced by 50 cents.

155 (b) For purposes of Subsection (2)(e), the amount of the personal retirement exemption
156 shall be further reduced according to the following schedule:

157 (i) for married ~~[taxpayers]~~ individuals filing joint returns, for each \$1 of adjusted gross
158 income earned over \$32,000, the amount of the personal retirement exemption shall be reduced
159 by 50 cents;

160 (ii) for married ~~[taxpayers]~~ individuals filing separate returns, for each \$1 of adjusted gross
161 income earned over \$16,000, the amount of the personal retirement exemption shall be reduced
162 by 50 cents; and

163 (iii) for ~~[individual taxpayers]~~ an individual filing as a single taxpayer, for each \$1 of
164 adjusted gross income earned over \$25,000, the amount of the personal retirement exemption shall
165 be reduced by 50 cents.

166 (c) For purposes of Subsections ~~[(3)]~~ (4)(a) and (b), adjusted gross income shall be
167 calculated by adding to federal adjusted gross income any interest income not otherwise included
168 in federal adjusted gross income.

169 (d) (i) For purposes of determining ownership of items of retirement income common law
170 doctrine will be applied in all cases even though some items may have originated from service or
171 investments in a community property state.

172 (ii) Amounts received by the spouse of a living retiree because of the retiree's having been
173 employed in a community property state are not deductible as retirement income of such spouse.

174 ~~[(e)]~~ (5) For purposes of Subsection (2)(h), a subtraction for an amount paid for health care
175 insurance as defined in Title 31A, Chapter 1, General Provisions, is not allowed:

176 ~~[(f)]~~ (a) for an amount that is reimbursed or funded in whole or in part by:

177 (i) the ~~[federal government,]~~ United States;

178 (ii) the state~~[-]~~; or

179 (iii) an agency or instrumentality of:

180 (A) the ~~[federal government]~~ United States; or

181 (B) the state; and

182 ~~[(f)]~~ (b) for ~~[a taxpayer]~~ an individual who is eligible to participate in a health plan

183 maintained and funded in whole or in part by the [taxpayer's] individual's employer or the
184 [taxpayer's] individual's spouse's employer.

185 (6) (a) An individual may subtract from the individual's federal taxable income a
186 contribution or interest earned on a contribution under Subsection (2)(i):

187 (i) to the extent the contribution is accepted by the account administrator as provided in
188 Title 31A, Chapter 32a, Medical Care Savings Account Act; and

189 (ii) if the individual did not deduct or include the amounts of the contribution or interest
190 earned on the contribution on the individual's federal individual income tax return pursuant to
191 Section 220, Internal Revenue Code.

192 (b) A contribution subtracted from federal taxable income under Subsection (2)(i) may not
193 exceed:

194 (i) for an individual described in Subsection (6)(c), the product of:

195 (A) the maximum contribution allowed under Title 31A, Chapter 32a, Medical Care
196 Savings Account Act, for the taxable year; and

197 (B) two; or

198 (ii) for an individual described in Subsection (6)(d), the maximum contribution allowed
199 under Title 31A, Chapter 32a, Medical Care Savings Account Act, for the taxable year.

200 (c) A contribution subtracted from federal taxable income under Subsection (2)(i) may not
201 exceed the amount described in Subsection (6)(b)(i) for an individual filing a joint return if:

202 (i) neither spouse filing the joint return is covered by:

203 (A) health care insurance as defined in Section 31A-1-301; or

204 (B) a self-funded plan that covers the other spouse; and

205 (ii) each spouse filing the joint return has a medical care savings account.

206 (d) A contribution subtracted from federal taxable income under Subsection (2)(i) may not
207 exceed the amount described in Subsection (6)(b)(ii) for an individual who:

208 (i) does not file a joint return; or

209 (ii) files a joint return, but does not meet the requirements of Subsection (6)(c).

210 **Section 2. Retrospective operation.**

211 This act has retrospective operation for taxable years beginning on or after January 1, 2000.

Legislative Review Note
as of 1-11-00 3:45 PM

A limited legal review of this legislation raises no obvious constitutional or statutory concerns.

Office of Legislative Research and General Counsel