



---

[SF 2396](#) – Department of Revenue Technical (LSB5331SV)  
Staff Contact: Eric Richardson (515.281.6767) [eric.richardson@legis.iowa.gov](mailto:eric.richardson@legis.iowa.gov)  
Fiscal Note Version – As amended by House amendment [S-5231](#)

---

**Description**

[Senate File 2396](#) as amended by [S-5231](#) relates to the administration of taxation, lottery, and alcoholic beverages under the Iowa Department of Revenue (IDR), updates appropriation language to the Veterans Trust Fund, changes the taxation of lump sum distributions of retirement income, increases estimated tax thresholds, and makes an annual transfer of lottery revenues to the length of service award program grant fund. Divisions of the Bill are retroactively effective and effective upon enactment.

The following divisions of the Bill have no fiscal impact:

- Division I — Disclosure of Tax Information. Division I takes effect upon enactment.
- Division II — Annual Reporting.
- Division III — Property Tax Extensions.
- Division IV — Farm Tenancy Income Tax Exclusion.
- Division V — Pass-Through Entities. Division V takes effect upon enactment and is retroactively effective to January 1, 2024.
- Division VI — Sales Tax Changes.
- Division VII — Motor Fuel Taxes.
- Division VIII — Veterans Trust Fund and Lottery.
- Division IX — Alcoholic Beverages.
- Division X — Inheritance Tax — Future Code Changes Due To Repeal. Division X takes effect January 1, 2025, and applies to the estates of decedents dying on or after January 1, 2025.
- Division XII — Estimated Tax Threshold. Division XII takes effect January 1, 2025, for tax years beginning on or after that date.
- Division XIV — Communications in Professional Confidence.

The following divisions of the Bill have a fiscal impact and are described in further detail below:

- Division XI — Lump Sum Distribution of Retirement Income. Division XI takes effect upon enactment and is retroactive for tax years beginning on or after January 1, 2024.
- Division XIII — Length of Service Award Programs. Division XIII takes effect January 1, 2025.

---

**Division XI — Lump Sum Distribution of Retirement Income**

**Description**

Division XI of the Bill:

- Exempts a lump sum distribution from a retirement account from state taxation for a person who is disabled, or 55 years of age or older, or who is the surviving spouse of an individual or is a survivor having an insurable interest in an individual who would have qualified for the exemption for the tax year.

- Excludes the lump sum distribution exempt from State taxation in the Bill from being included in calculating the individual income tax filing thresholds in Iowa Code section [422.5](#).
- Takes effect upon enactment and applies retroactively to tax years beginning on or after January 1, 2024.

### **Background**

2022 Iowa Acts, [House File 2317](#) (Income Tax Rate Reduction and Exemptions Act) exempted all income defined as retirement income from the State individual income tax for disabled taxpayers and taxpayers aged 55 years or older. The exemption also applies to a deceased person's retirement income that is received by a surviving spouse or a person with an insurable interest in the deceased person. The change did not alter the full retirement pay exemption available to retired military personnel, which is not based on age or disability.

HF 2317 also excluded retirement income from the calculation of Iowa's universal and age-based low-income full exemptions from individual income tax.

[26 U.S.C. §402](#)(e) controls federal taxability of the beneficiary of employees' trusts and lump-sum distributions and defines the laws for federal taxation of these transfers.

### **Assumptions/Fiscal Impact (Division XI)**

The following assumptions are made for Division XI of the Bill:

- In the three most recent tax years with available data, TY 2020, TY 2021, and TY 2022, the total amount of lump-sum tax reported averaged \$20,000 per tax year, with an average of 92 households per year reporting income.
- It is estimated by the IDR that out of the total of \$20,000 average per tax year, approximately \$11,000 on average per tax year would have been eligible for the tax exemption in Division XI of the Bill.

Division XI of the Bill decreases General Fund revenue by \$11,000 beginning in FY 2025, increasing annually by the rate of growth in Iowa personal income.

## **Division XIII — Length of Service Award Programs**

### **Description**

Division XIII of the Bill:

- Transfers \$2.0 million in lottery revenues each fiscal year to the Length of Service Award Program Grant Fund created in Division XIII of the Bill.
- Authorizes a municipality to establish a length of service award program for volunteer fire fighters, emergency medical care providers who are volunteers, and reserve peace officers.
- Requires awards from the Program to be treated as a tax-deferred benefit under federal code.
- Appropriates transfers to the Fund to the IDR to provide grants to municipalities that have established a program.
- Requires the IDR to adopt rules to administer Division XIII of the Bill. The rules must require municipalities to make a dollar-for-dollar funding match to awardees, not to exceed \$500 per person.
- Requires the IDR to prorate awards to municipalities if there is not enough money in the Fund.

Division XIII of the Bill is effective January 1, 2025.

**Fiscal Impact (Division XIII)**

Division XIII of the Bill requiring annual transfers from lottery revenues will decrease General Fund revenue by \$2.0 million beginning in FY 2025. Additionally, there would be an increase in cost to the IDR of \$25,000 and 0.3 full-time equivalent (FTE) position in FY 2025, and \$10,000 and 0.1 FTE position each year thereafter, to administer the program.

---

**Sources**

Iowa Department of Revenue  
Legislative Services Agency analysis

/s/ Jennifer Acton

---

April 19, 2024

Doc ID 1449565

---

The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

---

www.legis.iowa.gov