



[SF 2398](#) – Individual Income Tax, Property Tax, and State Funds (LSB5398SV)
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 Fiscal Note Version – New

Description

[Senate File 2398](#) decreases individual income tax rates beginning in tax year (TY) 2024. The Bill does the following:

- Eliminates the bracketed individual income tax rates that go into effect in TY 2024 and TY 2025 and establishes flat individual income tax rates of 3.65% in TY 2024 and 3.50% for tax years beginning on or after January 1, 2025. Currently, a flat individual income tax rate of 3.90% is scheduled to go into effect beginning in TY 2026.
- Eliminates references to calculating the latest cumulative inflation factors in Iowa Code chapter [422](#) due to removing income tax brackets.
- Repeals the alternative individual income tax rates.

The Bill takes effect upon enactment and applies retroactively to tax years beginning on or after January 1, 2024.

Background

Current individual income tax rates for TY 2024, TY 2025, and tax years beginning January 1, 2026, were set in 2022 Iowa Acts, [House File 2317](#) (Income Tax Rate Reduction and Exemptions Act). **Figure 1** details [current](#) and proposed tax rates for single filers by tax year, while **Figure 2** details current and proposed tax rates for married filers by tax year.

Figure 1 — Individual Income Tax Rates (Single Filer)

Income — Single Filer	Current Law			Senate File 2398		
	TY 2024	TY 2025	TY 2026+	TY 2024	TY 2025	TY 2026+
\$0 to \$6,210	4.40%	4.40%	3.90%	3.65%	3.50%	
\$6,210 to \$31,050	4.82%	4.82%		3.65%		
\$31,050+	5.70%					

Figure 2 — Individual Income Tax Rates (Married Filers)

Income — Married Filers	Current Law			Senate File 2398		
	TY 2024	TY 2025	TY 2026+	TY 2024	TY 2025	TY 2026+
\$0 to \$12,420	4.40%	4.40%	3.90%	3.65%	3.50%	
\$12,420 to \$62,100	4.82%	4.82%		3.65%		
\$62,100+	5.70%					

Assumptions

- The tax reduction estimate is based on income tax returns filed for TY 2022 and is time-adjusted for previously enacted State and federal law changes, as well as personal income and population changes that are projected to occur after the 2022 base tax year.
- Temporary federal law changes under the [Tax Cut and Jobs Act of 2017](#) are assumed to expire after TY 2025. The Iowa individual income tax revisions under 2018 Iowa Acts,

[Senate File 2417](#) (Income and Sales Tax Modification Act), and 2022 Iowa Acts, House File 2317, are incorporated as current law for applicable years.

- The Iowa withholding reduction effect is assumed to start April 2024, considering the time needed for employers to revise their withholding calculation. As a result, the majority impact of TY 2024 would be realized in FY 2025.
- Tax year results are converted to fiscal year estimates using historical relationships between income tax withholding, estimate payments, tax refunds, and payments with filed tax returns.
- The [income surtax for schools](#) is a local option tax that is based on a taxpayer's Iowa income tax liability. Law changes that lower Iowa income tax liability also lower the amount of income surtax owed by any taxpayer subject to the surtax. For this projection, the surtax is assumed to equal 2.5% of State individual income tax liability.

Fiscal Impact

The individual income tax rate changes in Senate File 2398 are projected to decrease net individual income tax liability and State General Fund revenue by the following amounts:

- FY 2024 = \$279.3 million
- FY 2025 = \$1,627.4 million
- FY 2026 = \$901.3 million
- FY 2027 = \$377.7 million
- FY 2028 = \$385.2 million
- FY 2029 = \$396.3 million
- FY 2030 = \$408.0 million

The decrease in tax liability is also projected to decrease the statewide local option income surtax for schools by the following amounts:

- FY 2024 = \$0.0 million
- FY 2025 = \$35.1 million
- FY 2026 = \$28.8 million
- FY 2027 = \$9.1 million
- FY 2028 = \$9.4 million
- FY 2029 = \$9.7 million
- FY 2030 = \$9.9 million

Sources

Iowa Department of Revenue
Legislative Services Agency analysis

/s/ Jennifer Acton

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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.

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