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**HF 221** – Military Retirement Pay Exemption (LSB 1471HV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))  
Fiscal Note Version – New

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**Description**

**House File 221** exempts federal retirement pay received by a resident for military service from the State individual income tax. The exemption is effective for tax years 2013 and after.

**Assumptions**

- 1) At the end of 2012, there were 12,818 military retirees living in Iowa and their combined taxable retirement income is estimated to be \$266.8 million.
- 2) The number of military retirees is assumed to increase 1.0% per year.
- 3) The average military retirement compensation is assumed to increase 4.4% to 4.7% per year.
- 4) Estimates are adjusted for the portion of military retirement benefits that are currently exempt through Iowa's pension exemption of \$6,000 (single) and \$12,000 (married). The military exemption will be in addition to any pension, individual retirement account, or 401(k) retirement income the retired military veteran may receive.
- 5) The average marginal tax rate for persons receiving pensions is 5.3% to 5.6%.
- 6) Statewide, the local option income surtax for schools tax equals 2.7% of State individual income tax revenue, net of refunds.

**Fiscal Impact**

The income tax exemption contained in HF 221 is projected to reduce net General Fund revenue by \$1.4 million in FY 2013 and grow to \$18.0 million by FY 2017. The impact in future fiscal years will be similar to FY 2017.

### Summary of Fiscal Impacts

Dollars in millions

	State General Fund Impact	Local Option Income Surtax Impact
FY 2013	\$ -1.4	\$ 0.0
FY 2014	-20.0	-0.5
FY 2015	-16.1	-0.4
FY 2016	-16.9	-0.5
FY 2017	-18.0	-0.5

The military retirement tax exemption reduces taxable income and also reduces the amount of surtax raised by any school district that has a local option income surtax. Statewide, that impact is 2.7% of State individual income tax revenue, or \$38,000 in FY 2014, growing to an estimated \$486,000 in FY 2018 and after.

#### **Source**

Department of Revenue

/s/ Holly M. Lyons

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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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