

701—301.15(422) Special tax computation for taxpayers who are 65 years of age or older.

301.15(1) *Tax years beginning on or after January 1, 2007, but before January 1, 2009.* A special tax computation is available for determining the state income tax liability for certain taxpayers, except single taxpayers described in subrule 301.4(1), who are 65 years of age or older. For married persons filing jointly, filing separately on a combined return or filing separate returns, only one spouse is required to be 65 years of age or older on December 31 of the tax year. Under this provision, the taxpayer multiplies the net income for the tax year in excess of \$24,000 by the maximum individual income tax rate. The tax amount computed by this procedure is then compared to the tax amount on the individual's taxable income from the tax tables or the tax-rate schedule. The taxpayer is subject to the lesser of the two tax amounts. In the case of married taxpayers electing to file separate returns or separately on the combined return, the incomes of both spouses must be considered for purposes of determining the tax liability from the special tax computation. The tax liability calculated from the special tax computation is allocated between the spouses in the ratio of each spouse's net income to the combined net income of both spouses. For purposes of this rule, the partial exclusion of pension and other retirement benefits described in rule 701—302.47(422) and the phase-out exclusion for social security benefits described in 701—subrule 302.23(3) must be included in the net income amounts when determining the tax liability from the special tax computation.

EXAMPLE: A married couple had gross income, which included pensions, of \$27,000 for 2007, and they elected to file separately on a combined return. One spouse had gross income of \$15,000, and the other spouse had gross income of \$12,000. Only one spouse was 65 years of age as of December 31, 2007. Each spouse was able to claim a \$6,000 pension exclusion in accordance with rule 701—302.47(422). The one spouse with a net income of \$9,000 had a regular tax liability of \$229, and the other spouse with a net income of \$6,000 had a regular tax liability of \$70 for a total regular tax liability in the amount of \$299. The special tax computation of these taxpayers is shown below:

Taxpayers' combined net income after pension exclusion	\$15,000
Pension Exclusion	<u>\$12,000</u>
Total Income	\$27,000
Less: Income not subject to special tax	<u>\$24,000</u>
Income subject to special tax	\$3,000
Maximum Individual Income Tax Rate	<u>8.98%</u>
Special Tax Liability for 2007	\$269

Since the taxpayers' special tax liability for 2007 was \$269, this tax was imposed since it was less than the taxpayers' regular tax liability of \$299. This special tax liability is allocated to each spouse on the following basis:

$$\frac{\text{Spouse 1}}{\$27,000} \times \$269 = \$149 \qquad \frac{\text{Spouse 2}}{\$27,000} \times \$269 = \$120$$

The special tax computation for low-income taxpayers is not available to married taxpayers filing separate state returns or to married taxpayers filing separately on the combined return form in instances where one of the spouses has a net operating loss described in Iowa Code section 422.9, subsection 3, and the spouse elects to carry back or carry forward the net operating loss. Also, the special tax computation for low-income taxpayers is not available if the taxpayer is required to annualize the taxpayer's income as described in rule 701—303.9(422).

301.15(2) *Tax years beginning on or after January 1, 2009.* A special tax computation is available for determining the state income tax liability for certain taxpayers, except single taxpayers described in subrule 301.4(1), who are 65 years of age or older. For married persons filing jointly, filing separately on a combined return or filing separate returns, only one spouse is required to be 65 years of age or older on December 31 of the tax year. Under this provision, the taxpayer multiplies the net income for the tax year in excess of \$32,000 by the maximum individual income tax rate. The tax amount computed by this procedure is then compared to the tax amount on the individual's taxable income from the tax tables or the tax-rate schedule. The taxpayer is subject to the lesser of the two tax amounts. In the case of married

taxpayers electing to file separate returns or separately on the combined return, the incomes of both spouses must be considered for purposes of determining the tax liability from the special tax computation. The tax liability calculated from the special tax computation is allocated between the spouses in the ratio of each spouse's net income to the combined net income of both spouses. For purposes of this rule, the partial exclusion of pension and other retirement benefits described in rule 701—302.47(422) and the phase-out exclusion for social security benefits described in 701—subrule 302.23(3) must be included in the net income amounts when determining the tax liability from the special tax computation.

The special tax computation for low-income taxpayers is not available to married taxpayers filing separate state returns or to married taxpayers filing separately on the combined return form in instances when one of the spouses has a net operating loss described in Iowa Code section 422.9, subsection 3, and the spouse elects to carry back or carry forward the net operating loss. Also, the special tax computation for low-income taxpayers is not available if the taxpayer is required to annualize the taxpayer's income as described in rule 701—303.9(422).

This rule is intended to implement Iowa Code section 422.5 as amended by 2006 Iowa Acts, Senate File 2408.

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