Senate File 2206

S-5021

1 Amend Senate File 2206 as follows:

2 l. By striking everything after the enacting clause and 3 inserting:

8 <u>NEW SUBSECTION</u>. 63. *a.* Subtract the following percentage 9 of the net capital gain from the sale or exchange of capital 10 stock of a qualified corporation for which an election is made 11 by an employee-owner:

12 (1) For the tax year beginning in the 2023 calendar year, 13 thirty-three percent.

14 (2) For the tax year beginning in the 2024 calendar year, 15 sixty-six percent.

16 (3) For tax years beginning on or after January 1, 2025, one 17 hundred percent.

18 b. (1) An employee-owner is entitled to make one 19 irrevocable lifetime election to exclude the net capital gain 20 from the sale or exchange of capital stock of one qualified 21 corporation which capital stock was acquired by the employee-22 owner while employed and on account of employment by such 23 qualified corporation.

(2) The election shall apply to all subsequent sales
or exchanges of qualifying capital stock of the elected
corporation within fifteen years of the date of the election,
provided that the subsequent sales or exchanges were of capital
stock in the same qualified corporation and were acquired by
the employee-owner while employed and on account of employment
by such qualified corporation.

31 (3) The election shall apply to qualifying capital stock 32 that has been transferred by inter vivos gift from the 33 employee-owner to the employee-owner's spouse or to a trust 34 for the benefit of the employee-owner's spouse following the 35 transfer. This subparagraph (3) shall apply to a spouse SF 2206.3369 (1) 89

-1-

(amending this SF 2206 to CONFORM to HF 2317) jm/jh 1/20 1 only if the spouse was married to the employee-owner on the 2 date of the sale or exchange or the date of death of the 3 employee-owner.

4 (4) If the employee-owner dies after having sold or 5 exchanged qualifying capital stock without having made an 6 election under this subsection, the surviving spouse or, if 7 there is no surviving spouse, the personal representative of 8 the employee-owner's estate, may make the election that would 9 have qualified under this subsection.

10 (5) The election shall be made in the manner and form 11 prescribed by the department and shall be included with the 12 taxpayer's state income tax return for the taxable year in 13 which the election is made.

14 c. For purposes of this subsection:

15 (1) "Capital stock" means common or preferred stock, either 16 voting or nonvoting. "Capital stock" does not include stock 17 rights, stock warrants, stock options, or debt securities.

18 (2) "Employee-owner" means an individual who owns capital 19 stock in a qualified corporation for at least ten years, which 20 capital stock was acquired by the individual while employed and 21 on account of employment by such corporation for at least ten 22 cumulative years.

(3) "Personal representative" means the same as defined in 24 section 633.3, or if there is no such personal representative 25 appointed, then the person legally authorized to perform 26 substantially the same functions.

(4) (a) "Qualified corporation" means, with respect to an employee-owner, a corporation which, at the time of the first sale or exchange for which an election is made by the employeeowner under this subsection, meets all of the following conditions:

32 (i) The corporation employed individuals in this state for33 at least ten years.

-2-

34 (ii) The corporation has had at least five shareholders for 35 the ten years prior to the first sale or exchange under this

> SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 2/20

1 subsection.

2 (iii) The corporation has had at least two shareholders or 3 groups of shareholders who are not related for the ten years 4 prior to the first sale or exchange under this subsection. 5 Two persons are considered related when, under section 318 of 6 the Internal Revenue Code, one is a person who owns, directly 7 or indirectly, capital stock that if directly owned would be 8 attributed to the other person, or is the brother, sister, 9 aunt, uncle, cousin, niece, or nephew of the other person who 10 owns capital stock either directly or indirectly.

(b) "Qualified corporation" includes any member of an Iowa affiliated group if the Iowa affiliated group includes a member that has employed individuals in this state for at least ten years. For purposes of this subparagraph division, "Iowa *affiliated group*" means an affiliated group that has made a valid election to file an Iowa consolidated income tax return under section 422.37 in the year in which the deduction under this subsection is claimed. "Member" includes any entity included in the consolidated return under section 422.37, subsection 2, for the tax year in which the deduction is claimed.

(c) "Qualified corporation" also includes any corporation that was a party to a reorganization that was entirely or substantially tax free if such reorganization occurred during or after the employment of the employee-owner.

26 Sec. 2. EFFECTIVE DATE. This division of this Act takes 27 effect January 1, 2023.

28 Sec. 3. APPLICABILITY. This division of this Act applies to 29 tax years beginning on or after January 1, 2023.

DIVISION II

30 31

RETIRED FARMER LEASE INCOME EXCLUSION

-3-

32 Sec. 4. Section 422.7, Code 2022, is amended by adding the 33 following new subsection:

34 <u>NEW SUBSECTION</u>. 21A. *a.* Subtract, to the extent included, 35 net income received by an eligible individual pursuant to a

SF 2206.3369 (1) 89

(amending this SF 2206 to CONFORM to HF 2317) jm/jh 3/20 1 farm tenancy agreement covering real property held by the 2 eligible individual for ten or more years, if the eligible 3 individual materially participated in a farming business for 4 ten or more years.

b. An individual who elects to exclude income received
pursuant to a farm tenancy agreement under this subsection
shall not claim any of the following in the tax year in which
the election is made or in any succeeding year:

9 (1) The capital gain exclusion under section 422.7, 10 subsection 21.

11 (2) The beginning farmer tax credit under section 422.11E. 12 c. Married individuals who file separate state income tax 13 returns shall allocate their combined annual exclusion limit 14 to each spouse in the proportion that each spouse's respective 15 net income from a farm tenancy agreement bears to the total net 16 income from a farm tenancy agreement.

17 d. The department shall establish criteria, by rule, 18 relating to whether and how a surviving spouse may claim the 19 income exclusion for which a deceased eligible individual would 20 have been eligible under this subsection.

21 e. Net income from a farm tenancy agreement earned,
22 received, or reported by an entity taxed as a partnership
23 for federal tax purposes, an S corporation, or a trust or
24 estate is not eligible for the election and deduction in this
25 subsection, even if such net income ultimately passes through
26 to an eligible individual.

27 f. For purposes of this subsection:

(1) *Eligible individual* means an individual who is go disabled or who is fifty-five years of age or older at the time the election is made, who no longer materially participates in a farming business at the time the election is made, and who, as an owner-lessor, is party to a farm tenancy agreement.

33 (2) "Farm tenancy agreement" means a written agreement
34 outlining the rights and obligations of an owner-lessor and a
35 tenant-lessee where the tenant-lessee has a farm tenancy as

-4-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 4/20

1 defined in section 562.1A. A "farm tenancy agreement" includes 2 cash leases, crop share leases, or livestock share leases. (3) "Farming business" means the production, care, growing, 3 4 harvesting, preservation, handling, or storage of crops 5 or forest or fruit trees; the production, care, feeding, 6 management, and housing of livestock; or horticulture, all 7 intended for profit. "Livestock" means the same as defined in section 717.1. 8 (4) (5) "Materially participated" means the same as "material 9 10 participation" in section 469(h) of the Internal Revenue Code. Sec. 5. EFFECTIVE DATE. This division of this Act takes 11 12 effect January 1, 2023. Sec. 6. APPLICABILITY. This division of this Act applies to 13 14 tax years beginning on or after January 1, 2023. 15 DIVISION III 16 RETIRED FARMER CAPITAL GAIN EXCLUSION Section 422.7, subsection 21, Code 2022, is amended 17 Sec. 7. 18 by striking the subsection and inserting in lieu thereof the 19 following: 20 21. For purposes of this subsection: a. (1) "Farming business" means the production, care, growing, 21 22 harvesting, preservation, handling, or storage of crops 23 or forest or fruit trees; the production, care, feeding, 24 management, and housing of livestock; or horticulture, all for 25 intended profit. "Held" shall be determined with reference to the holding 26 (2) 27 period provisions of section 1223 of the Internal Revenue Code 28 and the federal regulations pursuant thereto. (3) "Livestock" means the same as defined in section 717.1. 29 30 (4) "Materially participated" means the same as "material 31 participation" in section 469(h) of the Internal Revenue Code. (5) (a) "Real property used in a farming business" means 32 33 all tracts of land and the improvements and structures located 34 on such tracts which are in good faith used primarily for 35 a farming business. Buildings which are primarily used or SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317)

-5-

jm/jh

5/20

1 intended for human habitation are deemed to be used in a
2 farming business when the building is located on or adjacent
3 to the parcel used in the farming business. Land and the
4 nonresidential improvements and structures located on such land
5 that shall be considered to be used primarily in a farming
6 business include but are not limited to land, improvements
7 or structures used for the storage or maintenance of farm
8 machinery or equipment, for the drying, storage, handling,
9 or preservation of agricultural crops, or for the storage of
10 farm inputs, feed, or manure. Real property used in a farming
11 business shall also include woodland, wasteland, pastureland,
12 and idled land used for the conservation of natural resources
13 including soil and water.

(b) Real property classified as agricultural property for
Iowa property tax purposes, except real property described
in section 441.21, subsection 12, paragraph "a" or "b",
shall be presumed to be real property used in a farming
business. This presumption is rebuttable by the department by
a preponderance of evidence that the real property did not meet
the requirements of subparagraph division (a).

21 (6) "Relative" means a person that satisfies one or more of 22 the following conditions:

(a) The individual is related to the taxpayer by
consanguinity or affinity within the second degree as
determined by common law.

(b) The individual is a lineal descendent of the taxpayer. For purposes of this subparagraph division, "*lineal descendent*" means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendent of the taxpayer.

32 (c) An entity in which an individual who satisfies the 33 conditions of either subparagraph division (a) or (b) has a 34 legal or equitable interest as an owner, member, partner, or 35 beneficiary.

-6-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 6/20 1 (7) "Retired farmer" means an individual who is disabled 2 or who is fifty-five years of age or older and who no longer 3 materially participates in a farming business when an exclusion 4 and deduction is claimed under this subsection.

5 b. Subtract the net capital gain from the sale of real
6 property used in a farming business if one of the following
7 conditions are satisfied:

8 (1) The taxpayer has materially participated in a farming 9 business for a minimum of ten years and has held the real 10 property used in a farming business for a minimum of ten years. 11 If the taxpayer is a retired farmer, the taxpayer is considered 12 to meet the material participation requirement if the taxpayer 13 materially participated in a farming business for ten years or 14 more in the aggregate, prior to making an election under this 15 subsection.

16 (2) The taxpayer has held the real property used in a 17 farming business which is sold to a relative of the taxpayer. 18 c. For a taxpayer who is a retired farmer, subtract the 19 net capital gain from the sale of cattle or horses held by 20 the taxpayer for breeding, draft, dairy, or sporting purposes 21 for a period of twenty-four months or more from the date of 22 acquisition; but only if the taxpayer materially participated 23 in the farming business for five of the eight years preceding 24 the farmer's retirement or disability and who has sold all or 25 substantially all of the taxpayer's interest in the farming 26 business by the time the election under this paragraph is made. 27 For a taxpayer who is a retired farmer, subtract the net d. 28 capital gain from the sale of breeding livestock, other than 29 cattle and horses, if the livestock is held by the taxpayer for 30 a period of twelve months or more from the date of acquisition; 31 but only if the taxpayer materially participated in the farming 32 business for five of the eight years preceding the farmer's 33 retirement or disability and who has sold all or substantially 34 all of the taxpayer's interest in the farming business by the 35 time the election under this paragraph is made.

-7-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 7/20 1 e. A taxpayer who is a retired farmer may make, subject to 2 the limitations described in paragraphs "f" and "g", a single, 3 lifetime election to exclude all qualifying capital gains under 4 paragraphs "b", "c", and "d".

5 f. A taxpayer who is a retired farmer who elects to exclude 6 capital gains under paragraph "b", "c", or "d" shall not claim 7 the beginning farmer tax credit under section 422.11E or the 8 exclusion for net income received pursuant to a farm tenancy 9 agreement in section 422.7, subsection 21A, in the tax year in 10 which this election is made or in any subsequent year.

11 g. A taxpayer who is a retired farmer who claims the 12 beginning farmer tax credit under section 422.11E shall not, 13 in the same year, make an election under this subsection. A 14 taxpayer who is a retired farmer and who elects to exclude 15 the net income received from a farm tenancy agreement under 16 section 422.7, subsection 21A, shall not, in the same tax year 17 or in any subsequent tax year, make the election under this 18 subsection.

19 *h.* Married individuals who file separate state income tax 20 returns shall allocate their combined annual net capital gain 21 exclusion under paragraphs "*b*", "*c*", and "*d*" to each spouse in 22 the proportion that each spouse's respective net capital gain 23 bears to the total net capital gain.

i. The department shall establish criteria, by rule,
relating to whether and how a surviving spouse may claim the
income exclusion for which a deceased retired farmer would have
been eligible under this subsection.

Sec. 8. REPEAL. 2018 Iowa Acts, chapter 1161, section 113,29 is repealed.

30 Sec. 9. REPEAL. 2019 Iowa Acts, chapter 162, section 1, is 31 repealed.

32 Sec. 10. EFFECTIVE DATE. This division of this Act takes 33 effect January 1, 2023.

34 Sec. 11. APPLICABILITY.

35 1. This division of this Act applies to tax years beginning SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) -8- jm/jh 8/20 1 on or after January 1, 2023.

2 2. This division of this Act applies to sales consummated on 3 or after the effective date of this division of this Act, and 4 sales consummated prior to the effective date of this division 5 of this Act shall be governed by the law as it existed prior to 6 the effective date of this division of this Act. DIVISION IV 7 INDIVIDUAL INCOME TAX RATES - TAX YEARS 2023-2025 8 9 Sec. 12. Section 422.5, subsection 3, paragraph b, Code 10 2022, is amended to read as follows: b. (1) In lieu of the computation in subsection 1 or 11 12 2, or in paragraph a'' of this subsection, if the married 13 persons', filing jointly or filing separately on a combined 14 return, head of household's, or surviving spouse's net income 15 exceeds thirteen thousand five hundred dollars, the regular 16 tax imposed under this subchapter shall be the lesser of the 17 maximum alternate state individual income tax rate specified in 18 subparagraph (2) times the portion of the net income in excess 19 of thirteen thousand five hundred dollars or the regular tax 20 liability computed without regard to this sentence. Taxpayers 21 electing to file separately shall compute the alternate tax 22 described in this paragraph using the total net income of the 23 husband and wife spouses. The alternate tax described in this 24 paragraph does not apply if one spouse elects to carry back or 25 carry forward the loss as provided in section 422.9, subsection 26 3. 27 (2) (a) (i) (A) For the tax year beginning on or after

28 January 1, 2023, but before January 1, 2024, the alternate tax 29 rate is 6.00 percent.

30 (B) For the tax year beginning on or after January 1, 2024, 31 but before January 1, 2025, the alternate tax rate is 5.70 32 percent.

33 (C) For the tax year beginning on or after January 1, 2025, 34 but before January 1, 2026, the alternate tax rate is 5.20 35 percent.

-9-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 9/20 1 (ii) This subparagraph division (a) is repealed January 1,
2 2026.

3 (b) For tax years beginning on or after January 1, 2026, the 4 alternate tax rate is 4.50 percent.

5 Sec. 13. Section 422.5, subsection 3B, paragraph b, Code 6 2022, is amended to read as follows:

(1) In lieu of the computation in subsection 1, 2, or 3, 7 *b*. 8 if the married persons', filing jointly or filing separately on 9 a combined return, head of household's, or surviving spouse's 10 net income exceeds thirty-two thousand dollars, the regular 11 tax imposed under this subchapter shall be the lesser of the 12 maximum alternate state individual income tax rate specified in 13 subparagraph (2) times the portion of the net income in excess 14 of thirty-two thousand dollars or the regular tax liability 15 computed without regard to this sentence. Taxpayers electing 16 to file separately shall compute the alternate tax described in 17 this paragraph using the total net income of the husband and 18 wife spouses. The alternate tax described in this paragraph 19 does not apply if one spouse elects to carry back or carry 20 forward the loss as provided in section 422.9, subsection 3. 21 (2) (a) (i) (A) For the tax year beginning on or after 22 January 1, 2023, but before January 1, 2024, the alternate tax 23 rate is 6.00 percent. 24

24 (B) For the tax year beginning on or after January 1, 2024, 25 but before January 1, 2025, the alternate tax rate is 5.70 26 percent.

27 (C) For the tax year beginning on or after January 1, 2025,
28 but before January 1, 2026, the alternate tax rate is 5.20

29 percent.

30 (ii) This subparagraph division (a) is repealed January 1, 31 2026.

32 (b) For tax years beginning on or after January 1, 2026, the 33 alternate tax rate is 4.50 percent.

34 Sec. 14. Section 422.5, subsection 6, Code 2022, is amended 35 to read as follows:

-10-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 10/20 6. <u>a.</u> Upon determination of the latest cumulative inflation
 2 factor, the director shall multiply each dollar amount set
 3 forth in section 422.5A by this cumulative inflation factor,
 4 shall round off the resulting product to the nearest one
 5 dollar, and shall incorporate the result into the income tax
 6 forms and instructions for each tax year.

7 b. This subsection is repealed on January 1, 2026.

8 Sec. 15. Section 422.5A, Code 2022, is amended by striking
9 the section and inserting in lieu thereof the following:
10 422.5A Tax rates.

10 422.5A 14X 14LES.

11 1. a. The tax imposed in section 422.5 shall be calculated 12 using the following rates in the following tax years in the 13 case of married persons filing jointly:

14 (1) For the tax year beginning on or after January 1, 2023, 15 but before January 1, 2024:

16 (a) On taxable income from 0 through \$12,000, the rate of 17 4.40 percent.

18 (b) On taxable income exceeding \$12,000 but not exceeding 19 \$60,000, the rate of 4.82 percent.

20 (c) On taxable income exceeding \$60,000 but not exceeding 21 \$150,000, the rate of 5.70 percent.

22 (d) On taxable income exceeding \$150,000, the rate of 6.00 23 percent.

24 (2) For the tax year beginning on or after January 1, 2024,25 but before January 1, 2025:

26 (a) On taxable income from 0 through \$12,000, the rate of 27 4.40 percent.

(b) On taxable income exceeding \$12,000 but not exceeding\$60,000, the rate of 4.82 percent.

30 (c) On taxable income exceeding \$60,000, the rate of 5.70
31 percent.

32 (3) For the tax year beginning on or after January 1, 2025,33 but before January 1, 2026:

34 (a) On taxable income from 0 through \$12,000, the rate of35 4.40 percent.

-11-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 11/20 1 (b) On taxable income exceeding \$12,000, the rate of 4.82
2 percent.

3 b. The tax imposed in section 422.5 shall be calculated 4 using the following rates in the following tax years in the 5 case of any other taxpayer other than married persons filing 6 jointly:

7 (1) For the tax year beginning on or after January 1, 2023,8 but before January 1, 2024:

9 (a) On taxable income from 0 through \$6,000, the rate of 10 4.40 percent.

11 (b) On taxable income exceeding \$6,000 but not exceeding 12 \$30,000, the rate of 4.82 percent.

13 (c) On taxable income exceeding \$30,000 but not exceeding 14 \$75,000, the rate of 5.70 percent.

15 (d) On taxable income exceeding \$75,000, the rate of 6.00
16 percent.

17 (2) For the tax year beginning on or after January 1, 2024,18 but before January 1, 2025:

19 (a) On taxable income from 0 through \$6,000, the rate of 20 4.40 percent.

21 (b) On taxable income exceeding \$6,000 but not exceeding 22 \$30,000, the rate of 4.82 percent.

23 (c) On taxable income exceeding \$30,000, the rate of 5.70 24 percent.

25 (3) For the tax year beginning on or after January 1, 2025,26 but before January 1, 2026:

27 (a) On taxable income from 0 through \$6,000, the rate of 28 4.40 percent.

29 (b) On taxable income exceeding \$6,000, the rate of 4.82 30 percent.

31 2. This section is repealed January 1, 2026.

32 Sec. 16. REPEAL. 2018 Iowa Acts, chapter 1161, section 107,33 is repealed.

34 Sec. 17. EFFECTIVE DATE. This division of this Act takes 35 effect January 1, 2023.

-12-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 12/20

1 Sec. 18. APPLICABILITY. This division of this Act applies 2 to tax years beginning on or after January 1, 2023. 3 DIVISION V 4 INDIVIDUAL INCOME TAX - FLAT RATE 5 Sec. 19. Section 421.27, subsection 9, paragraph a, 6 subparagraph (3), Code 2022, is amended to read as follows: 7 In the case of all other entities, including (3) 8 corporations described in section 422.36, subsection 5, and all 9 other entities required to file an information return under 10 section 422.15, subsection 2, the entity's Iowa net income ll after the application of the Iowa business activity ratio, 12 if applicable, multiplied by the top income tax rate imposed 13 under section 422.5A 422.5 for the tax year, less any Iowa tax 14 credits available to the entity. 15 Sec. 20. Section 422.5, subsection 1, paragraph a, Code 16 2022, is amended to read as follows: 17 a. A tax is imposed upon every resident and nonresident 18 of the state which tax shall be levied, collected, and paid 19 annually upon and with respect to the entire taxable income 20 as defined in this subchapter at rates as provided in section 21 422.5A a rate of four percent. 22 Sec. 21. Section 422.16B, subsection 2, paragraph a, Code 23 2022, is amended to read as follows: 24 (1) A pass-through entity shall file a composite return a. 25 on behalf of all nonresident members and shall report and pay 26 the income or franchise tax imposed under this chapter at the 27 maximum state income or franchise tax rate applicable to the 28 member under section 422.5A 422.5, 422.33, or 422.63 on the 29 nonresident members' distributive shares of the income from the 30 pass-through entity. 31 (2) The tax rate applicable to a tiered pass-through entity 32 shall be the maximum state income tax rate under section 422.5A

33 422.5.

34 Sec. 22. Section 422.25A, subsection 5, paragraph c, 35 subparagraphs (3), (4), and (5), Code 2022, are amended to read

-13-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 13/20 1 as follows:

2 (3) Determine the total distributive share of all final 3 federal partnership adjustments and positive reallocation 4 adjustments as modified by this title that are reported to 5 nonresident individual partners and nonresident fiduciary 6 partners and allocate and apportion such adjustments as 7 provided in section 422.33 at the partnership or tiered 8 partner level, and multiply the resulting amount by the maximum 9 individual income tax rate pursuant to section 422.5A 422.5 for 10 the reviewed year.

11 (4) For the total distributive share of all final federal 12 partnership adjustments and positive reallocation adjustments 13 as modified by this title that are reported to tiered partners: 14 (a) Determine the amount of such adjustments which are of a 15 type that would be subject to sourcing to Iowa under section 16 422.8, subsection 2, paragraph "a", as a nonresident, and then 17 determine the portion of this amount that would be sourced to 18 Iowa under those provisions as if the tiered partner were a 19 nonresident.

(b) Determine the amount of such adjustments which are of a type that would not be subject to sourcing to Iowa under section 422.8, subsection 2, paragraph "a", as a nonresident. (c) Determine the portion of the amount in subparagraph division (b) that can be established, as prescribed by the by the by rule, to be properly allocable to indirect partners that are nonresident partners or other partners not subject to tax on the adjustments.

(d) Multiply the total of the amounts determined in
subparagraph divisions (a) and (b), reduced by any amount
determined in subparagraph division (c), by the highest
individual income tax rate pursuant to section 422.5A 422.5 for
the reviewed year.

33 (5) For the total distributive share of all final federal
34 partnership adjustments and positive reallocation adjustments
35 as modified by this title that are reported to resident

-14-

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 14/20

1 individual partners and resident fiduciary partners, multiply 2 that amount by the highest individual income tax rate pursuant 3 to section 422.5A 422.5 for the reviewed year. Sec. 23. EFFECTIVE DATE. This division of this Act takes 4 5 effect January 1, 2026. Sec. 24. APPLICABILITY. This division of this Act applies 6 7 to tax years beginning on or after January 1, 2026. 8 DIVISION VI 9 RETIREMENT INCOME Section 8.57E, subsection 2, Code 2022, is amended 10 Sec. 25. ll to read as follows: 12 2. Moneys in the taxpayer relief fund shall only be used 13 pursuant to appropriations or transfers made by the general 14 assembly for tax relief, including but not limited to increases 15 in the general retirement income exclusion under section 422.7, 16 subsection 31, or reductions in income tax rates. Sec. 26. Section 422.5, subsection 3, paragraph a, Code 17 18 2022, is amended to read as follows: 19 The tax shall not be imposed on a resident or nonresident a. 20 whose net income, as defined in section 422.7, is thirteen 21 thousand five hundred dollars or less in the case of married 22 persons filing jointly or filing separately on a combined 23 return, heads of household, and surviving spouses or nine 24 thousand dollars or less in the case of all other persons; but 25 in the event that the payment of tax under this subchapter 26 would reduce the net income to less than thirteen thousand five 27 hundred dollars or nine thousand dollars as applicable, then 28 the tax shall be reduced to that amount which would result 29 in allowing the taxpayer to retain a net income of thirteen 30 thousand five hundred dollars or nine thousand dollars as 31 applicable. The preceding sentence does not apply to estates 32 or trusts. For the purpose of this subsection, the entire net 33 income, including any part of the net income not allocated 34 to Iowa, shall be taken into account. For purposes of this 35 subsection, net income includes all amounts of pensions or SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317)

```
-15- jm/jh
```

15/20

1 other retirement income, except for military retirement pay 2 excluded under section 422.7, subsection 31A, paragraph "a", or 3 section 422.7, subsection 31B, paragraph "a", received from any 4 source which is not taxable under this subchapter as a result 5 of the government pension exclusions in section 422.7, or any 6 other state law. If the combined net income of a husband and 7 wife exceeds thirteen thousand five hundred dollars, neither 8 of them shall receive the benefit of this subsection, and it 9 is immaterial whether they file a joint return or separate 10 returns. However, if a husband and wife file separate returns 11 and have a combined net income of thirteen thousand five 12 hundred dollars or less, neither spouse shall receive the 13 benefit of this paragraph, if one spouse has a net operating 14 loss and elects to carry back or carry forward the loss as 15 provided in section 422.9, subsection 3. A person who is 16 claimed as a dependent by another person as defined in section 17 422.12 shall not receive the benefit of this subsection if 18 the person claiming the dependent has net income exceeding 19 thirteen thousand five hundred dollars or nine thousand dollars 20 as applicable or the person claiming the dependent and the 21 person's spouse have combined net income exceeding thirteen 22 thousand five hundred dollars or nine thousand dollars as 23 applicable.

24 Sec. 27. Section 422.5, subsection 3B, paragraph a, Code 25 2022, is amended to read as follows:

-16-

a. The tax shall not be imposed on a resident or nonresident
who is at least sixty-five years old on December 31 of
the tax year and whose net income, as defined in section
422.7, is thirty-two thousand dollars or less in the case
of married persons filing jointly or filing separately on a
combined return, heads of household, and surviving spouses or
twenty-four thousand dollars or less in the case of all other
persons; but in the event that the payment of tax under this
subchapter would reduce the net income to less than thirty-two
thousand dollars or twenty-four thousand dollars as applicable,

SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317) jm/jh 16/20

1 then the tax shall be reduced to that amount which would result 2 in allowing the taxpayer to retain a net income of thirty-two 3 thousand dollars or twenty-four thousand dollars as applicable. 4 The preceding sentence does not apply to estates or trusts. 5 For the purpose of this subsection, the entire net income, 6 including any part of the net income not allocated to Iowa, 7 shall be taken into account. For purposes of this subsection, 8 net income includes all amounts of pensions or other retirement 9 income, except for military retirement pay excluded under 10 section 422.7, subsection 31A, paragraph "a", or section 422.7, 11 subsection 31B, paragraph "a", received from any source which is 12 not taxable under this subchapter as a result of the government 13 pension exclusions in section 422.7, or any other state law. 14 If the combined net income of a husband and wife exceeds 15 thirty-two thousand dollars, neither of them shall receive the 16 benefit of this subsection, and it is immaterial whether they 17 file a joint return or separate returns. However, if a husband 18 and wife file separate returns and have a combined net income 19 of thirty-two thousand dollars or less, neither spouse shall 20 receive the benefit of this paragraph, if one spouse has a net 21 operating loss and elects to carry back or carry forward the 22 loss as provided in section 422.9, subsection 3. A person 23 who is claimed as a dependent by another person as defined in 24 section 422.12 shall not receive the benefit of this subsection 25 if the person claiming the dependent has net income exceeding 26 thirty-two thousand dollars or twenty-four thousand dollars 27 as applicable or the person claiming the dependent and the 28 person's spouse have combined net income exceeding thirty-two 29 thousand dollars or twenty-four thousand dollars as applicable. 30 Section 422.7, subsection 31, Code 2022, is amended Sec. 28. 31 to read as follows: 32

32 31. <u>a.</u> For a person who is disabled, or is fifty-five years 33 of age or older, or is the surviving spouse of an individual or 34 a survivor having an insurable interest in an individual who 35 would have qualified for the exemption under this subsection SF 2206.3369 (1) 89

> (amending this SF 2206 to CONFORM to HF 2317) -17- jm/jh 17/20

1 for the tax year, subtract Subtract, to the extent included, 2 the total amount of received from a governmental or other 3 pension or retirement pay plan, including, but not limited 4 to, defined benefit or defined contribution plans, annuities, 5 individual retirement accounts, plans maintained or contributed 6 to by an employer, or maintained or contributed to by a 7 self-employed person as an employer, and deferred compensation 8 plans or any earnings attributable to the deferred compensation 9 plans, up to a maximum of six thousand dollars for a person, 10 other than a husband or wife, who files a separate state income 11 tax return and up to a maximum of twelve thousand dollars 12 for a husband and wife who file a joint state income tax 13 return. However, a surviving spouse who is not disabled or 14 fifty-five years of age or older can only exclude the amount 15 of pension or retirement pay received as a result of the death 16 of the other spouse. A husband and wife filing separate state 17 income tax returns or separately on a combined state return 18 are allowed a combined maximum exclusion under this subsection 19 of up to twelve thousand dollars. The twelve thousand dollar 20 exclusion shall be allocated to the husband or wife in the 21 proportion that each spouse's respective pension and retirement 22 pay received bears to total combined pension and retirement 23 pay received received by a person who is disabled, or is 24 fifty-five years of age or older, or is the surviving spouse of 25 an individual or is a survivor having an insurable interest in 26 an individual who would have qualified for the exemption under 27 this subsection for the tax year. 28 b. Married taxpayers who file separate state income tax 29 returns shall allocate their combined annual exclusion amount 30 to each spouse in the proportion that each spouse's respective 31 income received from a pension or retirement plan bears to the 32 total combined pension or retirement pay received. 33 c. A taxpayer who is not disabled or fifty-five years of 34 age or older and who receives pension or retirement pay as a 35 surviving spouse or as a survivor with an insurable interest SF 2206.3369 (1) 89

-18-

(amending this SF 2206 to CONFORM to HF 2317) jm/jh 18/20

1 in an individual who would have qualified for the exemption 2 for the tax year may only exclude the amount received from a 3 pension or retirement plan in the tax year as a result of the 4 death of the decedent. Sec. 29. EFFECTIVE DATE. This division of this Act takes 5 6 effect January 1, 2023. 7 Sec. 30. APPLICABILITY. This division of this Act applies 8 to tax years beginning on or after January 1, 2023. 9 DIVISION VII 10 TAXPAYER RELIEF FUND Section 8.57E, Code 2022, is amended by adding the 11 Sec. 31. 12 following new subsection: NEW SUBSECTION. 5. a. For the purposes of tax relief 13 14 provided in this Act, the following amounts shall be 15 transferred from the taxpayer relief fund to the general fund 16 of the state for the following fiscal years: (1) For the fiscal year beginning July 1, 2022, and ending 17 18 June 30, 2023, one hundred thirteen million dollars. (2) For the fiscal year beginning July 1, 2023, and ending 19 20 June 30, 2024, one hundred fifty-nine million one hundred 21 thousand dollars. 22 (3) For the fiscal year beginning July 1, 2024, and ending 23 June 30, 2025, ninety-two million three hundred thousand 24 dollars. 25 (4) For the fiscal year beginning July 1, 2025, and ending 26 June 30, 2026, two hundred fifty-nine million four hundred 27 thousand dollars. 28 (5) For the fiscal year beginning July 1, 2026, and ending 29 June 30, 2027, one hundred ninety-five million six hundred 30 thousand dollars. 31 (6) For the fiscal year beginning July 1, 2027, and ending 32 June 30, 2028, nine million six hundred thousand dollars. 33 b. This subsection is repealed July 1, 2028.> 34 Title page, by striking lines 1 through 7 and inserting 2. 35 <An Act relating to state revenue and finance by modifying the SF 2206.3369 (1) 89 (amending this SF 2206 to CONFORM to HF 2317)

-19-

jm/jh

19/20

1 individual income tax, making appropriations, and including
2 effective date and applicability provisions.>

DAN DAWSON