



[HF 2026](#) – Retirement Income Tax Exemption (LSB5342YH)
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Fiscal Note Version – New

Description

[House File 2026](#) exempts all retirement income (income received through pensions, 401(k) accounts, individual retirement accounts, etc.) from the Iowa individual income tax.

The Bill also excludes all retirement income from the calculation used to determine eligibility for either of Iowa's current low-income full exemptions from income tax.

The changes are retroactive to January 1, 2022.

Background

Current Iowa law allows for a retirement income exemption of up to \$6,000 for single filers or \$12,000 for married filers. Military retirement income received from the federal government and Social Security income are also fully excluded from Iowa income tax.

Iowa law contains two separate net income thresholds below which low-income taxpayers are not subject to the Iowa income tax. The first threshold applies to all potential taxpayers and is generally equal to \$9,000 of net income for single taxpayers and \$13,500 for married taxpayers, heads of households, and surviving spouses. This universal low-income threshold generally does not apply to dependents. In determining whether the taxpayer qualifies for the low-income threshold and is therefore fully exempt from Iowa income tax, net income includes sources of income that are not subject to Iowa income tax.

The second threshold is based on higher amounts that apply only to taxpayers who are age 65 or older. The threshold is generally equal to \$24,000 of net income for single taxpayers and \$32,000 for married taxpayers, heads of households, and surviving spouses. Like the universal low-income threshold, this age-based threshold generally does not apply to dependents. The aged-based low-income threshold is available to both spouses as long as one spouse is age 65 or older.

The changes in the Bill to the calculation of the two full exemption thresholds will allow taxpayers to benefit from the low-income exemptions without regard to the amount of the taxpayers' pension income.

Assumptions

- The tax reduction estimate was completed by the Department of Revenue using the individual income tax micromodel developed by the Department. The micromodel is based on income tax returns filed for tax year (TY) 2020 and is time-adjusted for other enacted State and federal law changes, as well as personal income and population changes that are projected to occur after the base tax year. The model results are adjusted to account for persons who pay Iowa income tax through income tax withholding or other means but do not file Iowa income tax returns.

- The micromodel produces results based on tax years. The Department converts tax year results 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 surtax owed by any taxpayer subject to the surtax. For this projection, the surtax is assumed to equal 2.4% of State income tax liability.

Fiscal Impact

The proposed pension and retirement income exemption is projected to reduce General Fund revenue by the amounts listed in the right column of the following table. The General Fund impact continues past FY 2028, increasing each year by the rate of growth in pension and retirement income received by Iowa taxpayers.

| Retirement Income Exemption | | | |
|------------------------------------|--------------------------|---------|--|
| In Millions | | | |
| | <u>Tax Reduction</u> | | <u>General Fund Revenue Change</u> |
| TY 2022 | \$ -378.0 | FY 2022 | \$ -48.0 |
| TY 2023 | -362.8 | FY 2023 | -601.5 |
| TY 2024 | -379.9 | FY 2024 | -355.1 |
| TY 2025 | -396.3 | FY 2025 | -393.2 |
| TY 2026 | -410.0 | FY 2026 | -414.0 |
| TY 2027 | -420.7 | FY 2027 | -418.3 |
| TY 2028 | -433.4 | FY 2028 | -432.2 |

As a result of the proposed income tax exemption, the statewide total amount received through local option income surtaxes for schools is projected to be reduced by approximately \$9.2 million each tax year. A school district that is not at its maximum allowed surtax rate may choose to increase the surtax rate in order to maintain their annual surtax revenue.

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.