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**SF 7** – Income Tax Exemption, Service Workers (LSB1309XS)  
Staff Contact: Jeff Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)  
Fiscal Note Version – New

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**Description**

[Senate File 7](#) provides an individual income tax exemption for wages received by an individual for services provided to an Iowa resident who has a physical or mental impairment that substantially limits one or more major life activities. To be eligible for the exemption, the wages must be received from a nonprofit, tax-exempt entity organized under Iowa Code chapter [504](#). The change is effective beginning January 1, 2024.

**Assumptions**

- The tax reduction estimate was completed by the Department of Revenue (Department) using the individual income tax micromodel developed by the Department. The micromodel is based on income tax returns filed for tax year (TY) 2021 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 Department incorporated the following assumptions into the individual income tax micromodel:
  - Information published ([iowaworkforcedevelopment.gov/occupational-projections](http://iowaworkforcedevelopment.gov/occupational-projections)) by Iowa Workforce Development indicates that there are 23,540 personal care aid workers in Iowa. It is assumed that 50.0% (11,770) perform qualified disabled services care through a nonprofit that would qualify their wages for the income tax exemption.
  - The annualized average entry-level wage is assumed to equal \$24,000, and the experienced worker annualized average wage is assumed to equal \$33,000.
  - The Department assigned 11,770 random taxpayers represented in the micromodel who reported similar annual wages for tax year 2021 and were between the ages of 25 and 55. The Department then calculated the income tax reduction that would result if the wage income had been exempt.
  - 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 and are therefore not included as part of the micromodel's dataset but will benefit from the exemption through reduced income tax withholding.
- 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, estimated 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 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.
- Implementation of the new tax exemption will require rules to be adopted by the Department. The Department will also experience additional monitoring and compliance costs.

**Fiscal Impact**

The proposed disabled services worker income tax 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 personal service worker income earned by Iowa taxpayers.

| <b>Disabled Services Worker Income Exemption</b> |                  |         |                  |
|--|------------------|---------|------------------|
| In Millions                                      |                  |         |                  |
|  | Income           |         | General Fund     |
|  | Tax              |         | Revenue          |
|  | <u>Reduction</u> |         | <u>Reduction</u> |
| TY 2023  | \$ 0.0           | FY 2023 | \$ 0.0           |
| TY 2024  | 9.2              | FY 2024 | 1.9              |
| TY 2025  | 9.8              | FY 2025 | 10.7             |
| TY 2026  | 9.8              | FY 2026 | 11.6             |
| TY 2027  | 10.4             | FY 2027 | 11.0             |
| TY 2028  | 11.0             | FY 2028 | 10.8             |

The statewide total received through local option income surtaxes for schools is projected to be reduced by approximately \$0.2 million each tax year. A school district that is not at its maximum allowed surtax rate may choose to increase the surtax rate to maintain its annual surtax revenue.

**Source**

Department of Revenue

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/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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