



SF 2109 – Pension Income Tax Elimination (LSB5985XS)
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Fiscal Note Version – New

Description

Senate File 2109 exempts all retirement income from the Iowa individual income tax. The change is effective beginning tax year 2018.

Background

Current Iowa law exempts from taxation \$6,000 (\$12,000 for married taxpayers) in annual retirement income received by persons 55 years or older or who have met other qualifications. Current law also exempts federal military retirement pay and survivor benefits from Iowa income tax.

For the purpose of the exemption, retirement income includes pensions, annuities, self-employment retirement plans, deferred compensation, Individual Retirement Account distributions, and other retirement plan benefits.

Iowa schools may implement a local option income surtax for schools at a rate not to exceed 20.0% of income tax liability. Changes that reduce Iowa income tax liability also reduce the amount raised by this local option surtax. Statewide, the surtax yields an amount that is equal to approximately 3.1% of State income tax revenue.

Assumptions

The estimated fiscal impact was developed by the Department of Revenue (DOR) using its Individual Income Tax Micro Model. The model is based on actual tax return data filed for tax year 2016, updated for law changes as well as demographic and income growth assumptions. Tax year estimates are converted to fiscal year estimates using historic payment and refund patterns.

Fiscal Impact

For tax year 2018, exempting all retirement income from the State income tax is projected to reduce individual income tax liability by \$276.8 million and local option income surtax for schools revenue by \$8.6 million. On a fiscal year basis, the State General Fund revenue reduction is projected to be \$7.3 million for FY 2018 and \$370.8 million for FY 2019. The following table provides the projected impact for six years, with the State General Fund fiscal year impact listed on the right. After FY 2023, the impact is projected to continue to increase by approximately 4.0% per fiscal year.

Income Tax Reduction and State General Fund Impact				
(in Millions)				
Tax Year	State Individual Income Tax Reduction	Income Tax Surtax Reduction	Fiscal Year	State General Fund Revenue Reduction
TY 2018	\$ -276.8	\$ -8.6	FY 2018	\$ -7.3
TY 2019	-287.8	-8.9	FY 2019	-370.8
TY 2020	-301.3	-9.3	FY 2020	-294.2
TY 2021	-316.3	-9.9	FY 2021	-306.1
TY 2022	-325.1	-10.1	FY 2022	-319.6
TY 2023	-334.7	-10.4	FY 2023	-328.7

Source

Iowa Department of Revenue

/s/ Holly M. Lyons

February 14, 2018

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.
