

F I N A L R E P O R T

PENSION TAXATION EQUITY STUDY COMMITTEE

January 1990

AUTHORIZATION AND APPOINTMENT

The Pension Taxation Equity Study Committee was established by the Legislative Council. The charge to the Committee was to study recent court cases and national trends in pension taxation and recommend a plan for the equitable taxation of pensions, annuities, and other retirement benefits. Committee members were as follows:

Senator William Dieleman, Co-chairperson
Representative Kay Chapman, Co-chairperson
Senator Richard Drake
Senator Don Gettings
Senator Jack Nystrom
Senator William Palmer
Representative Dorothy Carpenter
Representative John Connors
Representative Marvin Diemer
Representative Dennis Renaud

Two meetings were authorized and the Committee met Thursday, September 7, 1989, and Monday, October 30, 1989.

1. Meeting of September 7, 1989

The Committee elected permanent Co-chairpersons, adopted rules, and reviewed the charge of the Committee. Mr. Carl Castelda, Deputy Director of the Department of Revenue and Finance, spoke to the Committee and provided an overview of the U.S. Supreme Court case, Davis v. Michigan which requires all public pensions to be treated equally for taxation purposes; the refundability of taxes paid on pensions not subject to taxation as decided in the Davis case and the impact of Senate File 539 (which treats all public pensions alike for tax purposes but is effective for only one year) enacted in the 1989 Session. Mr. Castelda also reviewed the principles of taxation of pensions and the various pensions.

Mr. Arlo Hagge, National Field Representative for the National Association of Retired Federal Employees, addressed the Committee as to the concerns of retired federal employees. Mr. Hagge stated many retired federal employees do not receive social security benefits or very little, based on noncontribution to the social security system prior to 1987, and he urged the Committee to seek fairness in the taxation of federal pensions and social security

benefits.

Mr. Harry Griger, Assistant Attorney General in the Office of the Attorney General, spoke to the Committee in regard to recent litigation concerning the recent United States Supreme Court decision in Davis. Mr. Griger provided information on how other states have addressed the issue of refundability of income tax paid on pension income.

The Committee discussed the focus of the interim study. The charge to the Committee was reviewed and discussion ensued on reviewing taxation of all pensions, public and private, or only public pensions as considered in the Davis case. It was agreed to review the taxation of private pensions after receiving information from the Department of Revenue and Finance at the next meeting.

2. Meeting of October 30, 1989

The Committee met on Monday, October 30, 1989. Mr. Carl Castelda provided a review on court cases currently before the United States Supreme Court and the Iowa Supreme Court. Mr. Castelda provided information on state revenues generated by the taxation of private pensions and stated that if taxed the revenues are estimated to be from 45 to 52 million dollars.

Mr. Castelda informed the Committee that based upon current data, Senate File 539 as passed by the General Assembly in 1989, which provided exemption for a portion of income from pension, is not revenue neutral as was the intent of the bill. Mr. Castelda told the Committee the Department of Revenue determined that in order for the law to be revenue neutral, the exemptions would need to be increased from \$2500 to \$4000 for taxpayers filing a separate return and for married taxpayers filing jointly would need to be increased from \$5000 to \$8000.

In addition, Mr. Castelda informed the Committee of two technical corrections to Senate File 539 which should be addressed during the next legislative session.

Senate File 539 reduced the age for receiving the exemption from 65 to 55. However, a section of the law was not amended to reflect the lower age. Mr. Castelda stated the 65 figure needs to be amended to 55. The second technical error is the omission from public pensions receiving the exemption of pensions under Chapter 410, the disabled and retired firefighters and police officers system.

The Committee discussed the information received at both meetings and the alternatives available to comply with the U.S. Supreme Court case and the charge to the Committee.

RECOMMENDATIONS

The following recommendations are made by the Pension Taxation Equity Study Committee to the Legislative Council.

1. A proposed bill draft raising the exemption amounts in Senate File 539 to \$4000 for taxpayers filing a separate tax return and \$8000 for married taxpayers filing a joint tax return.

2. A proposed bill draft correcting the age requirement for the exemption in Senate File 539 from 65 to 55 and providing the exemption for pensions received under Chapter 410, the disabled and retired firefighters and police officers system.

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