

Senate File 2408 - Enrolled

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SENATE FILE 2408

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AN ACT
RELATING TO ELDERLY INCOME TAX RELIEF BY PROVIDING FOR AN
ELDERLY TAXPAYER INCOME TAX EXCLUSION AND THE PHASING OUT OF
THE INCOME TAX ON SOCIAL SECURITY BENEFITS AND INCLUDING
EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 422.5, Code 2005, is amended by adding
the following new subsection:

NEW SUBSECTION. 2A. However, 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 twenty-four thousand dollars or
less in the case of married persons filing jointly or filing
separately on a combined return, unmarried heads of household,
and surviving spouses or eighteen thousand dollars or less in
the case of all other persons; but in the event that the
payment of tax under this division would reduce the net income
to less than twenty-four thousand dollars or eighteen thousand
dollars as applicable, then the tax shall be reduced to that
amount which would result in allowing the taxpayer to retain a
net income of twenty-four thousand dollars or eighteen
thousand dollars as applicable. The preceding sentence does
not apply to estates or trusts. For the purpose of this
subsection, the entire net income, including any part of the
net income not allocated to Iowa, shall be taken into account.
For purposes of this subsection, net income includes all
amounts of pensions or other retirement income received from
any source which is not taxable under this division as a
result of the government pension exclusions in section 422.7,
or any other state law. If the combined net income of a
husband and wife exceeds twenty-four thousand dollars, neither
of them shall receive the benefit of this subsection, and it
is immaterial whether they file a joint return or separate
returns. However, if a husband and wife file separate returns
and have a combined net income of twenty-four thousand dollars
or less, neither spouse shall receive the benefit of this
paragraph, if one spouse has a net operating loss and elects
to carry back or carry forward the loss as provided in section
422.9, subsection 3. A person who is claimed as a dependent
by another person as defined in section 422.12 shall not
receive the benefit of this subsection if the person claiming
the dependent has net income exceeding twenty-four thousand
dollars or eighteen thousand dollars as applicable or the
person claiming the dependent and the person's spouse have
combined net income exceeding twenty-four thousand dollars or
eighteen thousand dollars as applicable.

In addition, if the married persons', filing jointly or
filing separately on a combined return, unmarried head of
household's, or surviving spouse's net income exceeds
twenty-four thousand dollars, the regular tax imposed under
this division shall be the lesser of the maximum state
individual income tax rate times the portion of the net income
in excess of twenty-four thousand dollars or the regular tax
liability computed without regard to this sentence. Taxpayers
electing to file separately shall compute the alternate tax
described in this paragraph using the total net income of the
husband and wife. The alternate tax described in this
paragraph does not apply if one spouse elects to carry back or
carry forward the loss as provided in section 422.9,
subsection 3.

This subsection applies even though one spouse has not
attained the age of sixty-five, if the other spouse is at
least sixty-five at the end of the tax year.

This subsection is repealed January 1, 2009.

Sec. 2. Section 422.5, Code 2005, is amended by adding the
following new subsection:

NEW SUBSECTION. 2B. However, 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

3 4 defined in section 422.7, is thirty=two thousand dollars or
3 5 less in the case of married persons filing jointly or filing
3 6 separately on a combined return, unmarried heads of household,
3 7 and surviving spouses or twenty=four thousand dollars or less
3 8 in the case of all other persons; but in the event that the
3 9 payment of tax under this division would reduce the net income
3 10 to less than thirty=two thousand dollars or twenty=four
3 11 thousand dollars as applicable, then the tax shall be reduced
3 12 to that amount which would result in allowing the taxpayer to
3 13 retain a net income of thirty=two thousand dollars or
3 14 twenty=four thousand dollars as applicable. The preceding
3 15 sentence does not apply to estates or trusts. For the purpose
3 16 of this subsection, the entire net income, including any part
3 17 of the net income not allocated to Iowa, shall be taken into
3 18 account. For purposes of this subsection, net income includes
3 19 all amounts of pensions or other retirement income received
3 20 from any source which is not taxable under this division as a
3 21 result of the government pension exclusions in section 422.7,
3 22 or any other state law. If the combined net income of a
3 23 husband and wife exceeds thirty=two thousand dollars, neither
3 24 of them shall receive the benefit of this subsection, and it
3 25 is immaterial whether they file a joint return or separate
3 26 returns. However, if a husband and wife file separate returns
3 27 and have a combined net income of thirty=two thousand dollars
3 28 or less, neither spouse shall receive the benefit of this
3 29 paragraph, if one spouse has a net operating loss and elects
3 30 to carry back or carry forward the loss as provided in section
3 31 422.9, subsection 3. A person who is claimed as a dependent
3 32 by another person as defined in section 422.12 shall not
3 33 receive the benefit of this subsection if the person claiming
3 34 the dependent has net income exceeding thirty=two thousand
3 35 dollars or twenty=four thousand dollars as applicable or the
4 1 person claiming the dependent and the person's spouse have
4 2 combined net income exceeding thirty=two thousand dollars or
4 3 twenty=four thousand dollars as applicable.

4 4 In addition, if the married persons', filing jointly or
4 5 filing separately on a combined return, unmarried head of
4 6 household's, or surviving spouse's net income exceeds
4 7 thirty=two thousand dollars, the regular tax imposed under
4 8 this division shall be the lesser of the maximum state
4 9 individual income tax rate times the portion of the net income
4 10 in excess of thirty=two thousand dollars or the regular tax
4 11 liability computed without regard to this sentence. Taxpayers
4 12 electing to file separately shall compute the alternate tax
4 13 described in this paragraph using the total net income of the
4 14 husband and wife. The alternate tax described in this
4 15 paragraph does not apply if one spouse elects to carry back or
4 16 carry forward the loss as provided in section 422.9,
4 17 subsection 3.

4 18 This subsection applies even though one spouse has not
4 19 attained the age of sixty=five, if the other spouse is at
4 20 least sixty=five at the end of the tax year.

4 21 Sec. 3. Section 422.5, subsection 7, Code 2005, is amended
4 22 to read as follows:

4 23 7. In addition to the other taxes imposed by this section,
4 24 a tax is imposed on the amount of a lump sum distribution for
4 25 which the taxpayer has elected under section 402(e) of the
4 26 Internal Revenue Code to be separately taxed for federal
4 27 income tax purposes for the tax year. The rate of tax is
4 28 equal to twenty=five percent of the separate federal tax
4 29 imposed on the amount of the lump sum distribution. A
4 30 nonresident is liable for this tax only on that portion of the
4 31 lump sum distribution allocable to Iowa. The total amount of
4 32 the lump sum distribution subject to separate federal tax
4 33 shall be included in net income for purposes of determining
4 34 eligibility under ~~the thirteen thousand five hundred dollar or~~
4 35 ~~less or nine thousand dollar or less exclusion, as applicable~~
5 1 subsections 2 and 2A or 2B, as applicable.

5 2 Sec. 4. Section 422.7, subsection 13, Code Supplement
5 3 2005, is amended to read as follows:

5 4 13. a. Subtract, to the extent included, the amount of
5 5 additional social security benefits taxable under the Internal
5 6 Revenue Code for tax years beginning on or after January 1,
5 7 1994, but before January 1, 2014. The amount of social
5 8 security benefits taxable as provided in section 86 of the
5 9 Internal Revenue Code, as amended up to and including January
5 10 1, 1993, continues to apply for state income tax purposes for
5 11 tax years beginning on or after January 1, 1994, but before
5 12 January 1, 2014.

5 13 b. (1) For tax years beginning in the 2007 calendar year,
5 14 subtract, to the extent included, thirty=two percent of

5 15 taxable social security benefits remaining after the
5 16 subtraction in paragraph "a".
5 17 (2) For tax years beginning in the 2008 calendar year,
5 18 subtract, to the extent included, thirty-two percent of
5 19 taxable social security benefits remaining after the
5 20 subtraction in paragraph "a".
5 21 (3) For tax years beginning in the 2009 calendar year,
5 22 subtract, to the extent included, forty-three percent of
5 23 taxable social security benefits remaining after the
5 24 subtraction in paragraph "a".
5 25 (4) For tax years beginning in the 2010 calendar year,
5 26 subtract, to the extent included, fifty-five percent of
5 27 taxable social security benefits remaining after the
5 28 subtraction in paragraph "a".
5 29 (5) For tax years beginning in the 2011 calendar year,
5 30 subtract, to the extent included, sixty-seven percent of
5 31 taxable social security benefits remaining after the
5 32 subtraction in paragraph "a".
5 33 (6) For tax years beginning in the 2012 calendar year,
5 34 subtract, to the extent included, seventy-seven percent of
5 35 taxable social security benefits remaining after the

6 1 subtraction in paragraph "a".
6 2 (7) For tax years beginning in the 2013 calendar year,
6 3 subtract, to the extent included, eighty-nine percent of
6 4 taxable social security benefits remaining after the
6 5 subtraction in paragraph "a".

6 6 c. Married taxpayers, who file a joint federal income tax
6 7 return and who elect to file separate returns or who elect
6 8 separate filing on a combined return for state income tax
6 9 purposes, shall allocate between the spouses the amount of
6 10 benefits subtracted under paragraphs "a" and "b" from net
6 11 income in the ratio of the social security benefits received
6 12 by each spouse to the total of these benefits received by both
6 13 spouses.

6 14 d. For tax years beginning on or after January 1, 2014,
6 15 subtract, to the extent included, the amount of social
6 16 security benefits taxable under section 86 of the Internal
6 17 Revenue Code.

6 18 Sec. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

6 19 1. The section of this Act enacting section 422.5,
6 20 subsection 2A, takes effect January 1, 2007, and applies to
6 21 tax years beginning on or after January 1, 2007, but before
6 22 January 1, 2009.

6 23 2. The section of this Act enacting section 422.5,
6 24 subsection 2B, takes effect January 1, 2009, for tax years
6 25 beginning on or after that date.

6 26 3. The section of this Act amending section 422.5,
6 27 subsection 7, takes effect January 1, 2007, for tax years
6 28 beginning on or after that date.

6 29 4. The section of this Act amending section 422.7,
6 30 subsection 13, takes effect January 1, 2007, for tax years
6 31 beginning on or after that date.

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6 34 _____
6 35 JEFFREY M. LAMBERTI
7 1 President of the Senate

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7 6 CHRISTOPHER C. RANTS
7 7 Speaker of the House

7 8 I hereby certify that this bill originated in the Senate and
7 9 is known as Senate File 2408, Eighty-first General Assembly.

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7 13 _____
7 14 MICHAEL E. MARSHALL
7 15 Secretary of the Senate

7 16 Approved _____, 2006

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7 18 _____
7 19 THOMAS J. VILSACK
7 20 Governor