

February 3, 1961.
Passed on File.

House File 268
By COMMITTEE ON TAX REVISION,

Passed House, Date 2-17-61 Passed Senate, Date 3-24-61

Vote: Ayes 140 Nays 0 Vote: Ayes 48 Nays 0

Approved 3-24-61

A BILL FOR

An Act relating to inheritance tax on the value of certain installment annuity payments.

Be It Enacted by the General Assembly of the State of Iowa:

- 1 Section 1. Section four hundred fifty point four (450.4),
- 2 Code 1958, is hereby amended by adding thereto the following
- 3 subsection:
- 4 "On the value of that portion of installment payments which
- 5 will be includable as net income as defined in section four
- 6 hundred twenty-two point seven (422.7) as received by a
- 7 beneficiary under an annuity which was purchased under an
- 8 employees pension or retirement plan."

EXPLANATION OF HOUSE FILE 268

The contributions of an employer to a qualified employees' retirement or pension plan are treated as deferred income of the employees under federal and Iowa income tax laws. The employee pays federal and state income tax on these contributions as he receives them after retirement. Under federal law, on death of the employee, the installments continued to be paid to his beneficiary are includable as income of the beneficiary as received. As the payments are treated as income, the value of the payments to be made is not included as a part of the decedent employee's estate for federal estate tax purposes. However, under the Iowa inheritance tax law the commuted value of the future installments are included as a part of the decedent employee's estate for inheritance tax purposes. Therefore, having been taxed as an inheritance, the installments as received by the beneficiary were not taxed as income under state law.

With the enactment of chapter 208, Laws of the 56th General Assembly (Iowa short form reporting law), which adopted the federal adjusted gross income as net income for Iowa reporting purposes it resulted that these installment payments received by a beneficiary were included as taxable income as they are included as income for tax purposes under federal law. Thus, in Iowa the installment payments are now taxed twice, first as inheritance and second as income when received. It appears that this was not intended, but was an unrealized result of enactment of chapter 208 by the 56th General Assembly. This is an unfair result as there is double taxation and there is some question as to the validity of this double taxation and could result in the state losing both taxes. This bill is corrective and will make the Iowa law consistent with the federal law in taxing installment payments received by a beneficiary as income, but not taxing them as a part of the decedent's estate. It will not result in any significant loss of revenue to the state.

