

MAR 15 1995

WAYS AND MEANS

HOUSE FILE 439

BY CORNELIUS and HARRISON

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_

Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_

Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to the taxation of pensions for state individual  
2 income tax purposes and providing a retroactive applicability  
3 date provision.

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

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*HF 439*

1 Section 1. Section 422.7, Code 1995, is amended by adding  
2 the following new subsection:

3 NEW SUBSECTION. 32. a. Subtract, to the extent included,  
4 the total amount of a governmental or other pension,  
5 retirement pay, annuity, or other similar periodic payment  
6 made under a plan maintained or contributed to by an employer,  
7 or maintained or contributed to by a self-employed person as  
8 an employer.

9 b. (1) Add back, of the amount subtracted in paragraph  
10 "a", the lesser of the following:

11 (a) Fifty percent of the amount in paragraph "a".

12 (b) Fifty percent of the excess computed under  
13 subparagraph (2).

14 (2) The excess for purposes of subparagraph (1) is the  
15 amount by which the adjusted gross income plus interest and  
16 dividends from securities which are exempt from federal income  
17 tax less fifty percent of the amount in paragraph "a" exceed  
18 the base amount. If there is no excess computed under this  
19 subparagraph, this paragraph "b" does not apply to the  
20 taxpayer.

21 c. For purposes of this subsection, "base amount" means  
22 one of the following:

23 (1) Twenty-five thousand dollars, unless subparagraph (2)  
24 or (3) applies.

25 (2) Thirty-two thousand dollars, in the case of a joint  
26 return.

27 (3) Zero, if the taxpayer is married at the close of the  
28 tax year, does not file a joint return, and does not live  
29 apart from the spouse at all times during the tax year.

30 d. The amount in paragraph "a" not added back pursuant to  
31 paragraph "b" shall be added back under this paragraph to the  
32 extent of social security benefits received which are not  
33 subject to state tax pursuant to calculations done under  
34 subsection 13.

35 Sec. 2. This Act applies retroactively to January 1, 1995,

1 for tax years beginning on or after that date.

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EXPLANATION

3 The bill exempts governmental and other pension benefits  
4 made under a plan to which the employer or self-employed  
5 person as an employer makes contributions from the state  
6 individual income tax, except for an amount determined by a  
7 formula similar to the formula used to determine the amount of  
8 social security benefits included for state income tax  
9 purposes. The formula is the lesser of 50 percent of the  
10 pension benefits or 50 percent of the amount that the federal  
11 adjusted gross income less 50 percent of the pension benefits  
12 plus tax-exempt interest income exceeds a base amount. The  
13 base amount is \$25,000 unless it is a joint return where the  
14 base amount is \$32,000 or unless the taxpayer is married,  
15 files a separate return, and does not live apart from the  
16 spouse at all times, in which case the base amount is \$0.  
17 However, the amount computed is then reduced by the amount of  
18 social security benefits received which have been excluded  
19 from state income tax. The resulting amount is the amount of  
20 the pension exclusion. The bill applies retroactively to  
21 January 1, 1995, for tax years beginning on or after that  
22 date.

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