

2-23-98 Do Pass
5-3/28/98 Do Pass

FEB 5 1998
WAYS AND MEANS

HOUSE FILE 2153
BY COMMITTEE ON STATE GOVERNMENT

(SUCCESSOR TO HSB 505)

Passed House, ^(P. 304) Date 2/19/97 Passed Senate, ^(P. 1240) Date 4/14/98
Vote: Ayes 97 Nays 0 Vote: Ayes 50 Nays 0
Approved May 6, 1998

A BILL FOR

1 An Act providing that member contributions under certain public
2 retirement systems are considered employer contributions for
3 state income tax purposes, and providing effective and
4 applicability date provisions.

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

6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

H# 2153

1 Section 1. Section 97A.8, subsection 1, paragraph i, Code
2 1997, is amended to read as follows:

3 i. (1) Notwithstanding paragraph "g" or other provisions
4 of this chapter, beginning January 1, 1995, for federal income
5 tax purposes, and beginning January 1, 1999, for state income
6 tax purposes, member contributions required under paragraph
7 "f" or "h" which are picked up by the department shall be
8 considered employer contributions for federal and state income
9 tax purposes, and the department shall pick up the member
10 contributions to be made under paragraph "f" or "h" by its
11 employees. The department shall pick up these contributions
12 by reducing the salary of each of its employees covered by
13 this chapter by the amount which each employee is required to
14 contribute under paragraph "f" or "h" and shall certify the
15 amount picked up in lieu of the member contributions to the
16 department of revenue and finance. The department of revenue
17 and finance shall forward the amount of the contributions
18 picked up to the board of trustees for recording and deposit
19 in the pension accumulation fund.

20 (2) Member contributions picked up by the department under
21 subparagraph (1) shall be treated as employer contributions
22 for federal and state income tax purposes only and for all
23 other purposes of this chapter ~~and the laws of this state~~
24 shall be treated as employee contributions and deemed part of
25 the employee's earnable compensation or salary.

26 Sec. 2. Section 97B.11A, Code 1997, is amended to read as
27 follows:

28 97B.11A PICKUP OF EMPLOYEE CONTRIBUTIONS.

29 1. Notwithstanding section 97B.11 or other provisions of
30 this chapter, beginning January 1, 1995, for federal income
31 tax purposes, and beginning January 1, 1999, for state income
32 tax purposes, member contributions required under section
33 97B.11 which are picked up by the employer shall be considered
34 employer contributions for federal and state income tax
35 purposes, and each employer shall pick up the member

1 contributions to be made under section 97B.11 by its
2 employees. Each employer shall pick up these contributions by
3 reducing the salary of each of its employees covered by this
4 chapter by the amount which each employee is required to
5 contribute under section 97B.11 and shall pay the amount
6 picked up in lieu of the member contributions as provided in
7 section 97B.14.

8 2. Member contributions picked up by each employer under
9 subsection 1 shall be treated as employer contributions for
10 federal and state income tax purposes only and for all other
11 purposes of this chapter ~~and the laws of this state~~ shall be
12 treated as employee contributions and deemed part of the
13 employee's wages or salary.

14 Sec. 3. Section 294.10A, Code 1997, is amended to read as
15 follows:

16 294.10A PICKUP OF TEACHER ASSESSMENTS.

17 1. Notwithstanding section 294.9 or other provisions of
18 this chapter, for federal income tax purposes beginning
19 January 1 following the submission by a board of trustees of
20 an application to the federal internal revenue service
21 requesting qualification of a plan in accordance with the
22 requirements of the Internal Revenue Code, as defined in
23 section 422.3, and for state income tax purposes beginning
24 January 1, 1999, or January 1 following an application for
25 qualification, whichever is later, teacher assessments
26 required under section 294.9 which are picked up by an
27 employing school district shall be considered employer
28 contributions for federal and state income tax purposes, and
29 each employing school district establishing a pension and
30 annuity retirement system pursuant to this chapter shall pick
31 up the teacher assessments to be made under section 294.9 by
32 its employees commencing on the January-1-following-an
33 application-for-qualification applicable date on which the
34 assessments shall be considered employer contributions for
35 income tax purposes under this subsection. Each employing

1 school district shall pick up these teacher assessments by
2 reducing the salary of each of the teachers covered by this
3 chapter by the amount which each teacher is required to
4 contribute through assessments under section 294.9 and shall
5 pay to the board of trustees the amount picked up in lieu of
6 the teacher assessments for recording and deposit in the fund.

7 2. Teacher assessments picked up by each employing school
8 district under subsection 1 shall be treated as employer
9 contributions for federal and state income tax purposes only
10 and for all other purposes of this chapter ~~and the laws of~~
11 ~~this state~~ shall be treated as teacher assessments and deemed
12 part of the teacher's wages or salary.

13 Sec. 4. Section 411.8, subsection 1, paragraph i, Code
14 1997, is amended to read as follows:

15 i. (1) Notwithstanding paragraph "g" or other provisions
16 of this chapter, beginning January 1, 1995, for federal income
17 tax purposes, and beginning January 1, 1999, for state income
18 tax purposes, member contributions required under paragraph
19 "f" or "h" which are picked up by the city shall be considered
20 employer contributions for federal and state income tax
21 purposes, and each city shall pick up the member contributions
22 to be made under paragraph "f" or "h" by its employees. Each
23 city shall pick up these contributions by reducing the salary
24 of each of its employees covered by this chapter by the amount
25 which each employee is required to contribute under paragraph
26 "f" or "h" and shall pay the amount picked up in lieu of the
27 member contributions to the board of trustees for recording
28 and deposit in the fund.

29 (2) Member contributions picked up by each city under
30 subparagraph (1) shall be treated as employer contributions
31 for federal and state income tax purposes only and for all
32 other purposes of this chapter ~~and the laws of this state~~
33 shall be treated as employee contributions and deemed part of
34 the employee's earnable compensation or salary.

35 Sec. 5. Section 422.7, subsections 29 through 31, Code

1 Supplement 1997, are amended by striking the subsections.
2 Sec. 6. EFFECTIVE AND APPLICABILITY DATE. This Act takes
3 effect January 1, 1999, and applies to tax years beginning on
4 or after January 1, 1999.

5 EXPLANATION

6 This bill provides that, beginning January 1, 1999, a
7 member's contribution under the public safety peace officers'
8 retirement, accident, and disability system, the Iowa public
9 employees' retirement system, and the statewide fire and
10 police retirement system are considered employer
11 contributions, and not part of the employee's salary, for
12 state income tax purposes. Current law provides, as of
13 January 1, 1995, that these contributions for these systems
14 are considered employer contributions for federal income tax
15 purposes only.

16 The bill also provides that member contributions to a
17 pension and annuity retirement system for teachers established
18 pursuant to chapter 294 are considered employer contributions
19 for state income tax purposes, beginning January 1, 1999, or
20 on the January 1 following submission of an application for
21 qualification to the internal revenue service, whichever is
22 later.

23 This bill takes effect January 1, 1999, and applies to tax
24 years beginning on or after that date.

25
26
27
28
29
30
31
32
33
34
35

HOUSE FILE 2153
FISCAL NOTE

A fiscal note for House File 2153 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 2153 provides, beginning January 1, 1999, all member contributions under the Public Safety Peace Officers' Retirement, Accident, and Disability System (POR), the Iowa Public Employees' Retirement System (IPERS), and the Statewide Fire and Police Retirement System (MFPRSI) are considered employer contributions rather than part of the employee's salary for state income tax purposes. Current law provides that these contributions for these systems are considered employer contributions for federal income tax purposes only. The provision would also apply to certain teacher pension and annuity plans.

ASSUMPTIONS

1. The following retirement systems are included in the estimate: IPERS, POR, MFPRSI, and the Des Moines Teachers' Retirement Fund.
2. The average marginal tax rate of the affected employees is assumed to be 5.0%.
3. State withholding would be adjusted beginning with the first paycheck in January 1999.

The following table shows the estimated number of employees and total contributions affected by the Bill (in millions of dollars).

<u>EMPLOYEES</u>	<u>IPERS</u>	<u>POR</u>	<u>MFPRSI</u>	<u>TEACHER</u>	<u>TOTAL</u>
Number	148,500	612	3,615	1,017	153,744
Contributions	\$143.2	\$2.4	\$11.9	\$1.7	\$159.2

FISCAL IMPACT

House File 2153 is expected to result in a decrease in revenues to the General Fund of approximately \$4.4 million in FY 1999 and \$8.8 million in FY 2000 and subsequent fiscal years. Since the tax reduction is in the form of a deferral, a significant portion of this cost would be recouped upon the retirement of the affected employees.

SOURCES

- IPERS
- MFPRSI
- POR
- Des Moines Teachers' Retirement Fund

(LSB 3571hv, LCS)

Drake, chair
Hipp
Larkin

HSB 506

STATE GOVERNMENT

Succeeded By

SF (HF) 2153

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON
STATE GOVERNMENT BILL BY
CHAIRPERSON MARTIN)

Passed House, Date _____ Passed Senate, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act providing that member contributions under certain public
2 retirement systems are considered employer contributions for
3 state income tax purposes, and providing effective and
4 applicability date provisions.

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

- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23

1 Section 1. Section 97A.8, subsection 1, paragraph i, Code
2 1997, is amended to read as follows:

3 i. (1) Notwithstanding paragraph "g" or other provisions
4 of this chapter, beginning January 1, 1995, for federal income
5 tax purposes, and beginning January 1, 1999, for state income
6 tax purposes, member contributions required under paragraph
7 "f" or "h" which are picked up by the department shall be
8 considered employer contributions for federal and state income
9 tax purposes, and the department shall pick up the member
10 contributions to be made under paragraph "f" or "h" by its
11 employees. The department shall pick up these contributions
12 by reducing the salary of each of its employees covered by
13 this chapter by the amount which each employee is required to
14 contribute under paragraph "f" or "h" and shall certify the
15 amount picked up in lieu of the member contributions to the
16 department of revenue and finance. The department of revenue
17 and finance shall forward the amount of the contributions
18 picked up to the board of trustees for recording and deposit
19 in the pension accumulation fund.

20 (2) Member contributions picked up by the department under
21 subparagraph (1) shall be treated as employer contributions
22 for federal and state income tax purposes only and for all
23 other purposes of this chapter ~~and the laws of this state~~
24 shall be treated as employee contributions and deemed part of
25 the employee's earnable compensation or salary.

26 Sec. 2. Section 97B.11A, Code 1997, is amended to read as
27 follows:

28 97B.11A PICKUP OF EMPLOYEE CONTRIBUTIONS.

29 1. Notwithstanding section 97B.11 or other provisions of
30 this chapter, beginning January 1, 1995, for federal income
31 tax purposes, and beginning January 1, 1999, for state income
32 tax purposes, member contributions required under section
33 97B.11 which are picked up by the employer shall be considered
34 employer contributions for federal and state income tax
35 purposes, and each employer shall pick up the member

1 contributions to be made under section 97B.11 by its
2 employees. Each employer shall pick up these contributions by
3 reducing the salary of each of its employees covered by this
4 chapter by the amount which each employee is required to
5 contribute under section 97B.11 and shall pay the amount
6 picked up in lieu of the member contributions as provided in
7 section 97B.14.

8 2. Member contributions picked up by each employer under
9 subsection 1 shall be treated as employer contributions for
10 federal and state income tax purposes only and for all other
11 purposes of this chapter ~~and the laws of this state~~ shall be
12 treated as employee contributions and deemed part of the
13 employee's wages or salary.

14 Sec. 3. Section 294.10A, Code 1997, is amended to read as
15 follows:

16 294.10A PICKUP OF TEACHER ASSESSMENTS.

17 1. Notwithstanding section 294.9 or other provisions of
18 this chapter, for federal income tax purposes beginning
19 January 1 following the submission by a board of trustees of
20 an application to the federal internal revenue service
21 requesting qualification of a plan in accordance with the
22 requirements of the Internal Revenue Code, as defined in
23 section 422.3, and for state income tax purposes beginning
24 January 1, 1999, or January 1 following an application for
25 qualification, whichever is later, teacher assessments
26 required under section 294.9 which are picked up by an
27 employing school district shall be considered employer
28 contributions for federal and state income tax purposes, and
29 each employing school district establishing a pension and
30 annuity retirement system pursuant to this chapter shall pick
31 up the teacher assessments to be made under section 294.9 by
32 its employees commencing on the January-1-following-an
33 application-for-qualification applicable date on which the
34 assessments shall be considered employer contributions for
35 income tax purposes under this subsection. Each employing

1 school district shall pick up these teacher assessments by
2 reducing the salary of each of the teachers covered by this
3 chapter by the amount which each teacher is required to
4 contribute through assessments under section 294.9 and shall
5 pay to the board of trustees the amount picked up in lieu of
6 the teacher assessments for recording and deposit in the fund.

7 2. Teacher assessments picked up by each employing school
8 district under subsection 1 shall be treated as employer
9 contributions for federal and state income tax purposes only
10 and for all other purposes of this chapter ~~and the laws of~~
11 ~~this state~~ shall be treated as teacher assessments and deemed
12 part of the teacher's wages or salary.

13 Sec. 4. Section 411.8, subsection 1, paragraph i, Code
14 1997, is amended to read as follows:

15 i. (1) Notwithstanding paragraph "g" or other provisions
16 of this chapter, beginning January 1, 1995, for federal income
17 tax purposes, and beginning January 1, 1999, for state income
18 tax purposes, member contributions required under paragraph
19 "f" or "h" which are picked up by the city shall be considered
20 employer contributions for federal and state income tax
21 purposes, and each city shall pick up the member contributions
22 to be made under paragraph "f" or "h" by its employees. Each
23 city shall pick up these contributions by reducing the salary
24 of each of its employees covered by this chapter by the amount
25 which each employee is required to contribute under paragraph
26 "f" or "h" and shall pay the amount picked up in lieu of the
27 member contributions to the board of trustees for recording
28 and deposit in the fund.

29 (2) Member contributions picked up by each city under
30 subparagraph (1) shall be treated as employer contributions
31 for federal and state income tax purposes only and for all
32 other purposes of this chapter ~~and the laws of this state~~
33 shall be treated as employee contributions and deemed part of
34 the employee's earnable compensation or salary.

35 Sec. 5. Section 422.7, subsections 29 through 31, Code

1 Supplement 1997, are amended by striking the subsections.

2 Sec. 6. EFFECTIVE AND APPLICABILITY DATE. This Act takes
3 effect January 1, 1999, and applies to tax years beginning on
4 or after January 1, 1999.

5 EXPLANATION

6 This bill provides that, beginning January 1, 1999, a
7 member's contribution under the public safety peace officers'
8 retirement, accident, and disability system, the Iowa public
9 employees' retirement system, and the statewide fire and
10 police retirement system are considered employer
11 contributions, and not part of the employee's salary, for
12 state income tax purposes. Current law provides, as of
13 January 1, 1995, that these contributions for these systems
14 are considered employer contributions for federal income tax
15 purposes only.

16 The bill also provides that member contributions to a
17 pension and annuity retirement system for teachers established
18 pursuant to chapter 294 are considered employer contributions
19 for state income tax purposes, beginning January 1, 1999, or
20 on the January 1 following submission of an application for
21 qualification to the internal revenue service, whichever is
22 later.

23 This bill takes effect January 1, 1999, and applies to tax
24 years beginning on or after that date.

25
26
27
28
29
30
31
32
33
34
35