JAN 1 0 2005
WAYS AND MEANS

HOUSE FILE 2
BY J. K. VAN FOSSEN

Passed House, Date ____________ Passed Senate, Date ____________
Vote: Ayes _______ Nays _______ Vote: Ayes _______ Nays _______
Approved ______________________________

A BILL FOR

An Act relating to the phaseout of state income tax on pension income and providing a retroactive applicability date.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

HF 2

TLSB 1691HH 81
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S.F. ________ H.F. 2

Section 1. Section 422.7, subsection 31, Code 2005, is amended to read as follows:

31. a. For a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under this subsection for the tax year, subtract, to the extent included, the total amount of a governmental or other pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of six thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of twelve thousand dollars for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or fifty-five years of age or older can only exclude the amount of pension or retirement pay received as a result of the death of the other spouse. A husband and wife filing separate state income tax returns or separately on a combined state return are allowed a combined maximum exclusion under this subsection of up to twelve thousand dollars. The twelve thousand dollar exclusion shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

b. For the tax year beginning January 1, 2005, subtract an amount equal to twenty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

c. For the tax year beginning January 1, 2006, subtract an amount equal to forty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

d. For the tax year beginning January 1, 2007, subtract an amount equal to sixty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

e. For the tax year beginning January 1, 2008, subtract an amount equal to eighty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

f. For tax years beginning on or after January 1, 2009, subtract the total amount of the income described in paragraph "a".

g. For a husband and wife filing separate state income tax returns or separately on a combined state return, the additional exclusion in paragraphs "b" through "f" shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

Sec. 2. RETROACTIVE APPLICABILITY. This Act applies retroactively to January 1, 2005, for tax years beginning on or after that date.

EXPLANATION

This bill phases out the state income tax on pension and retirement income over a five-year period. For the tax year beginning January 1, 2005, an additional 20 percent of pension or retirement income is exempted after the $6,000 (for single filers) or $12,000 (for married filers) is subtracted. For the tax year beginning January 1, 2006, an additional 40 percent is exempted; for the tax year beginning January 1, 2007, an additional 60 percent is exempted; for the tax year beginning January 1, 2008, an additional 80 percent is exempted; and for tax years beginning January 1, 2009, and all subsequent tax years, the total amount of pension and retirement income is exempted from state income taxation.

The bill applies retroactively to January 1, 2005, for tax years beginning on or after that date.