JAN 1 1 2006
WAYS & MEANS CALENDAR

HOUSE FILE 2045
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 502)

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

A BILL FOR

An Act phasing out the state income tax on social security benefits and on pension and retirement income and including effective and applicability date provisions.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

HF 2045

TLSB 5621HV 81
mg/sh/8

S.F. _______ H.F. 2045

Section 1. Section 422.7, subsection 13, Code Supplement 2005, is amended to read as follows:

13. a. Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994, but before January 1, 2011. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994, but before January 1, 2011.

b. (1) For tax years beginning in the 2007 calendar year, subtract, to the extent included, twenty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(2) For tax years beginning in the 2008 calendar year, subtract, to the extent included, forty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(3) For tax years beginning in the 2009 calendar year, subtract, to the extent included, sixty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(4) For tax years beginning in the 2010 calendar year, subtract, to the extent included, eighty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

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

d. For tax years beginning on or after January 1, 2011, subtract, to the extent included, the amount of social security benefits taxable under section 86 of the Internal Revenue Code.

Sec. 2. Section 422.7, subsection 31, Code Supplement 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, 2007, 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, 2008, 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, 2009, 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, 2010, 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, 2011, 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. 3. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. This Act takes effect January 1, 2007, and applies to tax years beginning on or after that date.

EXPLANATION

This bill phases out the state income tax on social security benefits over a five-year period and phases out the state income tax on pension and retirement income over the same five-year period.

For the tax year beginning on January 1, 2007, 20 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2008, 40 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2009, 60 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2010, 80 percent of taxable social security benefits are exempted; and for tax years beginning on or after January 1, 2011, 100 percent of social security benefits are exempted from state income taxation.

For the tax year beginning January 1, 2007, 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, 2008, an additional 40 percent is exempted; for the tax year beginning January 1, 2009, an additional 60 percent is exempted; for the tax year beginning January 1, 2010, an additional 80 percent is exempted; and for tax years beginning January 1, 2011, and all subsequent tax years, the total amount of pension and retirement income is exempted from state income taxation.

The bill takes effect January 1, 2007, and applies to tax years beginning on or after that date.

EIGHTY-FIRST GENERAL ASSEMBLY
2006 REGULAR SESSION
DAILY

HOUSE CLIP SHEET

JANUARY 13, 2006

HOUSE FILE 2045

H-8001

Amend House File 2045 as follows:

1. By striking page 1, line 1, through page 2, line 4, and inserting the following:

"Section 1. Section 422.7, subsection 13, Code 2005, is amended to read as follows:

13. a. Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, with the adjustments in paragraph "b", continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994. Married taxpayers, who file a joint federal income tax return and who elect to file separate returns or who elect separate filing on a combined return for state income tax purposes, shall allocate between the spouses the amount of benefits subtracted from net income in the ratio of the social security benefits received by each spouse to the total of these benefits received by both spouses.

b. In computing the amount of taxable social security benefits under paragraph "a" for tax years beginning on or after January 1, 2007, the term "base amount" in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, means one of the following:

(1) Except as otherwise provided in subparagraphs (2) and (3), thirty thousand dollars.

(2) In the case of a joint return, thirty-eight thousand four hundred dollars.

(3) In the case of a taxpayer who is married but does not file a joint return and does not live apart from the taxpayer's spouse at all times during the tax year, zero.

c. (1) For the tax year beginning in the 2008 calendar year and for each subsequent tax year, the adjusted base dollar amounts set forth in paragraph "b" shall be multiplied by the cumulative adjustment factor for that tax year. "Cumulative adjustment factor" means the product of the annual adjustment factor for the 2007 calendar year and all annual adjustment factors for subsequent calendar years. The cumulative adjustment factor applies to the tax year beginning in the calendar year for which the latest annual adjustment factor has been determined.

(2) The annual adjustment factor for the 2007 calendar year is one hundred percent. For each subsequent calendar year, the annual adjustment factor

equals the annual inflation factor for the calendar year, in which the tax year begins, as computed in section 422.4 for purposes of the individual income tax."

2. Page 2, line 19, by striking the words "six thousand" and inserting the following: "~~six~~ seven thousand two hundred".

3. Page 2, line 21, by striking the words "twelve thousand" and inserting the following: "~~twelve~~ fourteen thousand four hundred".

4. Page 2, by striking line 29 and inserting the following: "up to ~~twelve~~ fourteen thousand four hundred dollars. The ~~twelve~~ fourteen thousand four hundred dollar".

5. By striking page 2, line 34, through page 3, line 23, and inserting the following:

"b. (1) For the tax year beginning in the 2008 calendar year and for each subsequent tax year, the maximum exclusion dollar amounts set forth in paragraph "a" shall be multiplied by the cumulative adjustment factor for that tax year. "Cumulative adjustment factor" means the product of the annual adjustment factor for the 2007 calendar year and all annual adjustment factors for subsequent calendar years. The cumulative adjustment factor applies to the tax year beginning in the calendar year for which the latest annual adjustment factor has been determined.

(2) The annual adjustment factor for the 2007 calendar year is one hundred percent. For each subsequent calendar year, the annual adjustment factor equals the annual inflation factor for the calendar year, in which the tax year begins, as computed in section 422.4 for purposes of the individual income tax."

6. Title page, line 1, by striking the words "phasing out" and inserting the following: "reducing".

By HOGG of Linn

H-8001 FILED JANUARY 12, 2006

HOUSE CLIP SHEET

JANUARY 26, 2006

HOUSE FILE 2045

H-8004

Amend House File 2045 as follows:

1. Page 3, by inserting after line 23 the following:

"Sec. ___. Section 453A.6, subsection 1, Code 2005, is amended to read as follows:

1. There is imposed, and shall be collected and paid to the department, ~~the following taxes~~ a tax on all cigarettes used or otherwise disposed of in this state for any purpose whatsoever~~:~~

~~Class A. On cigarettes weighing not more than three pounds per thousand, eighteen mills on each such cigarette.~~

~~Class B. On cigarettes weighing more than three pounds per thousand, eighteen mills on each such cigarette.~~ equal to the following:

a. From January 1, 2007, through June 30, 2007, two and seventy-five hundredths cents on each cigarette.

b. During the fiscal year beginning July 1, 2007, three and thirty-five hundredths cents on each cigarette.

c. During the fiscal year beginning July 1, 2008, four and sixty-five hundredths cents on each cigarette.

d. During the fiscal year beginning July 1, 2009, six and seventy-five hundredths cents on each cigarette.

e. During fiscal years beginning on or after July 1, 2010, seven and eighty-five hundredths cents per cigarette.

Sec. ___. Section 453A.43, subsection 1, unnumbered paragraph 1, Code 2005, is amended to read as follows:

A tax is imposed upon all tobacco products in this state and upon any person engaged in business as a distributor of tobacco products, at the ~~rate of twenty-two percent~~ percentage rate specified in subsection 7 of the wholesale sales price of the tobacco products, except little cigars as defined in section 453A.42. Little cigars shall be subject to the same rate of tax imposed upon cigarettes in section 453A.6, payable at the time and in the manner provided in section 453A.6; and stamps shall be affixed as provided in division I of this chapter. The tax on tobacco products, excluding little cigars, shall be imposed at the time the distributor does any of the following:

Sec. ___. Section 453A.43, subsection 2, unnumbered paragraph 1, Code 2005, is amended to read as follows:

A tax is imposed upon the use or storage by consumers of tobacco products in this state, and upon the consumers, at the ~~rate of twenty-two percent~~ percentage rate specified in subsection 7 of the cost of the tobacco products.

Sec. ___. Section 453A.43, Code 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 7. The percentage rate of tobacco tax under this section is the following:

a. From January 1, 2007, through June 30, 2007, thirty-three and seven-tenths percent.

b. During the fiscal year beginning July 1, 2007, forty and nine-tenths percent.

c. During the fiscal year beginning July 1, 2008, fifty-six and eight-tenths percent.

d. During the fiscal year beginning July 1, 2009, eighty-two and five-tenths percent.

e. During the fiscal years beginning on or after July 1, 2010, ninety-five and nine-tenths percent."

2. Page 3, by striking lines 25 and 26 and inserting the following: "Act takes effect January 1, 2007. The sections of this Act amending section 422.7, subsections 13 and 31, apply to tax years beginning on or after the effective date of this Act."

3. Title page, line 2, by inserting after the word "income" the following: "and replacing the lost revenues".

4. By renumbering as necessary.

By MASCHER of Johnson

H-8004 FILED JANUARY 25, 2006

EIGHTY-FIRST GENERAL ASSEMBLY
2006 REGULAR SESSION
DAILY

HOUSE CLIP SHEET

JANUARY 31, 2006

HOUSE FILE 2045

H-8005

Amend House File 2045 as follows:

1. By striking everything after the enacting clause and inserting the following:

"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 forty-eight thousand dollars or less in the case of married persons filing jointly or filing separately on a combined return thirty-six 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 forty-eight thousand dollars or thirty-six 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 forty-eight thousand dollars or thirty-six 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 forty-eight 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 forty-eight 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 forty-eight thousand dollars or thirty-six thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding forty-eight thousand dollars or thirty-six thousand dollars as applicable.

In addition, if the married persons', filing jointly or filing separately on a combined return, net income exceeds forty-eight 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 forty-eight 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.

Sec. 2. Section 422.5, subsection 7, Code 2005, is amended to read as follows:

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

Sec. 3. EFFECTIVE AND APPLICABILITY DATE. This Act takes effect January 1, 2007, and applies to tax years beginning on or after that date."

2. Title page, by striking lines 1 and 2 and inserting the following: "An Act providing for a senior taxpayer income tax exclusion provision and including".

By SWAIM of Davis
BELL of Jasper
BUKTA of Clinton
FORD of Polk
GASKILL of Wapello
KUHN of Floyd
LYKAM of Scott
MILLER of Webster
OLDSON of Polk
BERRY of Black Hawk
COHOON of Des Moines
DAVITT of Warren
FOEGE of Linn
FREVERT of Palo Alto
JACOBY of Johnson
KRESSIG of Black Hawk
MERTZ of Kossuth
MURPHY of Dubuque
D. OLSON of Boone
PETTENGILL of Benton
REASONER of Union
SCHUELLER of Jackson
SHOULTZ of Black Hawk
T. TAYLOR of Linn
WENDT of Woodbury
WHITAKER of Van Buren
WINCKLER of Scott
PETERSEN of Polk
QUIRK of Chickasaw
REICHERT of Muscatine
SHOMSHOR of Pottawattamie
D. TAYLOR of Linn
THOMAS of Clayton
WHITEAD of Woodbury
WISE of Lee

H-8005 FILED JANUARY 30, 2006

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 2045 provides for a five-year phase-out of income tax on all currently taxable pension and social security income. The phase-out (20.0% per year) starts with tax years beginning on or after January 1, 2007. Pension and social security income would be completely tax exempt beginning tax year 2011.

Pension income includes traditional employer pensions as well as retirement annuity disbursements from Individual Retirement Accounts (IRA's), and deferred compensation plans such as a 401(k).

Background

Iowa currently exempts the first $6,000 (single) and $12,000 (joint) of pension income from taxation. Iowa also exempts 50.0% of Social Security income for all taxpayers. The remaining 50.0% is exempt for taxpayers with total income of less than $25,000 (single) or $32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The phase-out of income tax on all currently-taxable pension and Social Security income is projected to reduce net General Fund revenue by the following amounts:

- FY 2007: $ 18.1 million
- FY 2008: $ 60.1 million
- FY 2009: $102.5 million
- FY 2010: $141.8 million
- FY 2011: $175.7 million
- FY 2012: $197.8 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Source

Department of Revenue

/s/ Holly M. Lyons

January 24, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.1)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - Revised

Description

House File 2045 provides for a five-year phase-out of income tax on all currently taxable pension and social security income. The phase-out (20.0% per year) starts with tax years beginning on or after January 1, 2007. Pension and social security income would be completely tax exempt beginning tax year 2011.

Pension income includes traditional employer pensions as well as retirement annuity disbursements from Individual Retirement Accounts (IRA's), and deferred compensation plans such as a 401(k).

This revised fiscal note adds a reference to the local option income surtax for schools.

Background

Iowa currently excludes the first $6,000 (single) and $12,000 (joint) of pension income from taxation. Iowa also excludes 50.0% of Social Security income for all taxpayers. The remaining 50.0% is excluded for taxpayers with total income of less than $25,000 (single) or $32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The phase-out of income tax on all currently-taxable pension and Social Security income is projected to reduce net General Fund revenue by the following amounts:

- FY 2007: $ 18.1 million
- FY 2008: $ 60.1 million
- FY 2009: $102.5 million
- FY 2010: $141.8 million
- FY 2011: $175.7 million
- FY 2012: $197.8 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Since HF 2045 exempts retirement income from the Iowa personal income tax, the Bill will also lower the amount of money collected through the local option income surtax. The surtax is calculated as a percentage of State income tax liability. Revenue from the surtax is distributed to school districts implementing the tax.

Approximately 285 Iowa school districts currently have an income surtax. Statewide, the surtax raises an amount equal to approximately 3.0% of total net state income tax collections ($68.6 million in FY 2005). Applying that percentage to the projected tax reductions listed above provides the following additional reductions in income taxes owed by taxpayers benefiting from the exclusions provided in the Bill.

- FY 2007: $0.5 million
- FY 2008: $1.8 million
- FY 2009: $3.1 million
- FY 2010: $4.3 million
- FY 2011: $5.3 million
- FY 2012: $5.9 million

Source

Department of Revenue

/s/ Holly M. Lyons

January 30, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.2)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – Amendment H-8001 to HF 2045

Description

House File 2045 provides for a five-year phase-out of income tax on all currently taxable pension and social security income.

Amendment H-8001 strikes the phased-out of income taxes on retirement income and inserts increases in the maximum pension exclusion and the Social Security income taxation thresholds. The pension exclusion is raised to $7,200 (single) and $14,400 (joint). The income threshold where Social Security begins to be taxable is increased to $30,000 (single) and $38,400 (married).

The amendment also provides for indexing the pension exclusion and the Social Security threshold amounts going forward. This will increase the exclusions and thresholds annually at the rate of inflation.

Background

Iowa currently excludes the first $6,000 (single) and $12,000 (joint) of pension income from taxation. Iowa also excludes 50.0% of Social Security income for all taxpayers. The remaining 50.0% is excluded for taxpayers with total income of less than $25,000 (single) or $32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The change to the pension exclusion and the Social Security threshold, along with the indexation of both, is projected to reduce net General Fund revenue by the following amounts:

- FY 2007: $10.6 million
- FY 2008: $26.5 million
- FY 2009: $31.6 million
- FY 2010: $36.5 million
- FY 2011: $40.4 million
- FY 2012: $44.9 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Since H-8001 excludes additional retirement income from the Iowa personal income tax, the amendment will also lower the amount of money collected through the local option income surtax. The surtax is calculated as a percentage of State income tax liability. Revenue from the surtax is distributed to school districts implementing the tax.

Approximately 285 Iowa school districts currently have an income surtax. Statewide, the surtax raises an amount equal to approximately 3.0% of total net state income tax collections ($68.6 million in FY 2005). Applying that percentage to the projected tax reductions listed above provides the following additional reductions in income taxes owed by taxpayers benefiting from the exclusions provided in the amendment.

- FY 2007: $0.3 million
- FY 2008: $0.8 million
- FY 2009: $0.9 million
- FY 2010: $1.1 million
- FY 2011: $1.2 million
- FY 2012: $1.3 million

Source

Department of Revenue

/s/ Holly M. Lyons

January 30, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.3)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – Amendment H8004 to HF 2045

Description

Amendment H-8004 to HF 2045 increases Iowa's current cigarette tax to replace some of the tax revenue reduction associated with HF 2045. The amendment raises Iowa's current $0.36 per pack cigarette by:

- $0.19 cents January 1, 2007 (total per pack tax equals $0.55).
- $0.31 cents July 1, 2007 (total per pack tax equals $0.67).
- $0.57 cents July 1, 2008 (total per pack tax equals $0.93).
- $0.99 cents July 1, 2009 (total per pack tax equals $1.35).
- $1.21 cents July 1, 2010 (total per pack tax equals $1.57).

The amendment also increases the current tobacco products tax by a percentage similar to the percentage increase in the cigarette tax.

Fiscal Impact

The additional revenue associated with the proposed cigarette and tobacco tax increases contained in amendment H-8004 are presented in the following table, along with the State General Fund revenue impact projected for HF 2045 (without amendment) and the net impact of the Bill if amended. The impact of HF 2045 on local option income surtax revenue is not altered by the amendment.

HF 2045 Fiscal Impact
With Amendment H-8004

TY/FY	Income Tax Impact	Cig./Tob. Tax Impact	Net Revenue Impact
2007	$ - 18.1	$ 18.1	$ 0.0
2008	- 60.1	60.1	0.0
2009	- 102.5	102.5	0.0
2010	- 141.8	141.8	0.0
2011	- 175.7	145.9	- 29.8
2012	- 197.8	145.9	- 51.9

Source

Department of Revenue

/s/ Holly M. Lyons

January 30, 2006

HOUSE FILE 2045

H-8006

Amend the amendment, H-8005, to House File 2045 as follows:

1. Page 1, by striking lines 2 and 3, and inserting the following:

"___. Page 1, by inserting before line 1, the following:"

2. Page 1, line 12, by inserting after the word "return" the following: ", unmarried heads of household, and surviving spouses or".

3. Page 2, line 1, by inserting after the word "return," the following: "unmarried head of household's, or surviving spouse's".

4. Page 2, line 36, by striking the figure "2A." and inserting the following: "2A.""

5. Page 2, by striking lines 37 through 43, and inserting the following:

"___. Title page, line 1, by inserting after the word "Act" the following: "relating to income taxation by providing for a senior taxpayer income tax exclusion and"."

6. By renumbering as necessary.

By BOAL of Polk
J. K. VAN FOSSEN of Scott

H-8006 FILED JANUARY 31, 2006
A & B - WITHDRAWN

HOUSE FILE 2045

H-8007

Amend the amendment, H-8005, to House File 2045 as follows:

1. Page 1, line 12, by inserting after the word "return" the following: ", unmarried heads of household, and surviving spouses or".

2. Page 2, line 1, by inserting after the word "return," the following: "unmarried head of household's, or surviving spouse's".

3. Page 2, line 38, by striking the figure "2007," and inserting the following: "2008,".

By SWAIM of Davis

H-8007 FILED JANUARY 31, 2006
ADOPTED

HOUSE FILE 2045

H-8009

Amend the amendment, H-8005, to House File 2045 as follows:

1. Page 1, by striking lines 2 and 3, and inserting the following:

"___. Page 1, by inserting before line 1, the following:"

2. Page 2, line 36, by striking the figure "2A." and inserting the following: "2A.""

3. Page 2, by striking lines 37 through 43, and inserting the following:

"___. Page 3, by striking lines 24 through 26, and inserting the following:

"Sec. ___. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. The sections of this Act enacting section 422.5, subsection 2A, and amending section 422.5, subsection 7, take effect January 1, 2008, and apply to tax years beginning on or after that date. The sections of this act amending section 422.7, subsection 13 and 31, take effect January 1, 2007, and apply to tax years beginning on or after that date."

___. Title page, line 1, by inserting after the word "Act" the following: "relating to income taxation by providing for a senior taxpayer income tax exclusion and"."

4. By renumbering as necessary.

By BOAL of Polk

H-8009 FILED JANUARY 31, 2006

ADOPTED

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.4)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – Amendment H-8005 to HF 2045

Description

Amendment H-8005 to HF 2045 strikes everything after the enacting clause and provides for an income threshold under which a taxpayer age 65 or over would pay no State income tax. The threshold is applied on a net income basis (line 26 of the 2005 Iowa 1040), and is set at $36,000 (single) and $48,000 (married). In calculating net income, all pension and Social Security income is included. The amendment also provides for an alternative tax calculation that will allow some of the benefit of the threshold to be received by taxpayers with incomes just over the thresholds.

This fiscal note assumes adoption of a corrective amendment extending the alternative tax calculation to single taxpayers. If a corrective amendment is not adopted to H-8005, the fiscal impact of the amendment will be lower.

Background

Iowa currently exempts the first $6,000 (single) and $12,000 (joint) of pension income from taxation. Iowa also exempts 50.0% of Social Security income for all taxpayers. The remaining 50.0% is exempt for taxpayers with total income of less than $25,000 (single) or $32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The income tax threshold provided in Amendment H-8005 for taxpayers aged 65 and over will reduce General Fund Revenue by the following amounts:

- FY 2007: $29.9 million
- FY 2008: $70.2 million
- FY 2009: $73.6 million
- FY 2010: $75.8 million
- FY 2011: $76.8 million
- FY 2012: $78.9 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the income tax threshold is projected to continue to increase in years beyond FY 2012.

Since H-8005 shields income from the Iowa personal income tax, the Amendment will also lower the amount of money collected through the local option income surtax. The surtax is calculated as a percentage of State income tax liability. Revenue from the surtax is distributed to school districts implementing the tax.

Approximately 285 Iowa school districts currently have an income surtax. Statewide, the surtax raises an amount equal to approximately 3.0% of total net State income tax collections ($68.6 million in FY 2005). Applying that percentage to the projected tax reductions listed above provides the following additional reductions in income taxes owed by taxpayers benefiting from the income tax threshold provided in the amendment.

- FY 2007: $0.9 million
- FY 2008: $2.1 million
- FY 2009: $2.2 million
- FY 2010: $2.3 million
- FY 2011: $2.3 million
- FY 2012: $2.4 million

Source

Department of Revenue

/s/ Holly M. Lyons

January 31, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

HOUSE FILE 2045
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 502)

(As Amended and Passed by the House January 31, 2006)

Passed House, Date ____________ Passed Senate, Date ____________
Vote: Ayes ______ Nays ______ Vote: Ayes ______ Nays ______
Approved ____________________________

A BILL FOR

An Act relating to income taxation by providing for a senior taxpayer income tax exclusion and phasing out the state income tax on social security benefits and on pension and retirement income and including effective and applicability date provisions.

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

House Amendments ____________

HF 2045
mg/es/25

S.F. _______ H.F. 2045

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 forty-eight 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 thirty-six 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 forty-eight thousand dollars or thirty-six 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 forty-eight thousand dollars or thirty-six 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 forty-eight 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 forty-eight 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 forty-eight thousand dollars or thirty-six thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding forty-eight thousand dollars or thirty-six 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 forty-eight 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 forty-eight 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.

Sec. 2. Section 422.5, subsection 7, Code 2005, is amended to read as follows:

7. In addition to the other taxes imposed by this section, a tax is imposed on the amount of a lump sum distribution for which the taxpayer has elected under section 402(e) of the Internal Revenue Code to be separately taxed for federal income tax purposes for the tax year. The rate of tax is equal to twenty-five percent of the separate federal tax imposed on the amount of the lump sum distribution. A nonresident is liable for this tax only on that portion of the lump sum distribution allocable to Iowa. The total amount of the lump sum distribution subject to separate federal tax shall be included in net income for purposes of determining eligibility under ~~the-thirteen-thousand-five-hundred-dollar-or~~

~~less-or-nine-thousand-dollar-or-less-exclusion,-as-applicable~~ subsections 2 and 2A.

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

13. a. Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994, but before January 1, 2011. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994, but before January 1, 2011.

b. (1) For tax years beginning in the 2007 calendar year, subtract, to the extent included, twenty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(2) For tax years beginning in the 2008 calendar year, subtract, to the extent included, forty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(3) For tax years beginning in the 2009 calendar year, subtract, to the extent included, sixty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(4) For tax years beginning in the 2010 calendar year, subtract, to the extent included, eighty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

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

d. For tax years beginning on or after January 1, 2011, subtract, to the extent included, the amount of social security benefits taxable under section 86 of the Internal Revenue Code.

Sec. 4. Section 422.7, subsection 31, Code Supplement 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, 2007, 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, 2008, 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, 2009, 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, 2010, 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, 2011, 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. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. The sections of this Act enacting section 422.5, subsection 2A, and amending section 422.5, subsection 7, take effect January 1, 2008, and apply to tax years beginning on or after that date. The sections of this Act amending section 422.7, subsections 13 and 31, take effect January 1, 2007, and apply to tax years beginning on or after that date.

EIGHTY FIRST GENERAL ASSEMBLY
2006 REGULAR SESSION
DAILY
SENATE CLIP SHEET

FEBRUARY 9, 2006

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.5)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – As Amended and Passed by the House

Description

House File 2045 as amended and passed by the House provides for a five-year phase-out of income tax on all currently taxable pension and Social Security income. The phase-out (20.0% per year) starts with tax year 2007. Pension and Social Security income would be completely tax exempt beginning with tax year 2011.

The Bill as amended also provides for an income threshold under which a taxpayer aged 65 and over would pay no State income tax. The threshold is applied on a net income basis (line 26 of the 2005 Iowa 1040) and is set at $36,000 (single) and $48,000 (married). In calculating net income for the threshold, all otherwise-exempt pension and Social Security income is included. The Bill as amended also provides for an alternative tax calculation that will allow some of the benefit of the threshold to be received by taxpayers with incomes just over the thresholds. This provision is effective beginning with tax year 2008.

Background

Iowa currently excludes the first $6,000 (single) and $12,000 (joint) of pension income from taxation. Iowa also excludes 50.0% of Social Security income for all taxpayers. The remaining 50.0% is excluded for taxpayers with total income of less than $25,000 (single) or $32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Pension income includes traditional employer pensions as well as retirement annuity disbursements from Individual Retirement Accounts (IRA's), and deferred compensation plans such as a 401(k).

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and Social Security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The new income threshold for taxpayers age 65 or over and the phase-out of income tax on all currently-taxable pension and Social Security income together are projected to reduce net General Fund revenue by the following amounts:

- FY 2007: $ 18.1 million
- FY 2008: $ 84.8 million
- FY 2009: $156.8 million
- FY 2010: $188.1 million
- FY 2011: $210.5 million
- FY 2012: $226.7 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Since HF 2045 shields presently taxable income from the Iowa personal income tax, the Bill will also lower the amount of money collected through the local option income surtax. The surtax is calculated as a percentage of State income tax liability. Revenue from the surtax is distributed to school districts implementing the tax.

Approximately 285 Iowa school districts currently have an income surtax. Statewide, the surtax raises an amount equal to approximately 3.0% of total net state income tax collections ($68.6 million in FY 2005). Applying that percentage to the projected tax reductions listed above provides the following additional reductions in income taxes owed by taxpayers benefiting from the exclusions provided in the Bill.

- FY 2007: $0.5 million
- FY 2008: $2.5 million
- FY 2009: $4.7 million
- FY 2010: $5.6 million
- FY 2011: $6.3 million
- FY 2012: $6.8 million

Source

Department of Revenue

/s/ Holly M. Lyons

February 7, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Boal, ch
Huser
Shoultz
Soderberg
Struyk

HSB 502

WAYS AND MEANS

Succeeded By SF / HF

Succeeded SF / HF 2045

HOUSE FILE ______
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON VAN FOSSEN)

Passed House, Date __________ Passed Senate, Date __________
Vote: Ayes ______ Nays ______ Vote: Ayes ______ Nays ______
Approved ______________________

A BILL FOR

An Act phasing out the state income tax on social security benefits and on pension and retirement income and including effective and applicability date provisions.

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

TLSB 5621YC 81
mg/sh/8

S.F. ________ H.F. ________

Section 1. Section 422.7, subsection 13, Code Supplement 2005, is amended to read as follows:

13. a. Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994, but before January 1, 2011. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994, but before January 1, 2011.

b. (1) For tax years beginning in the 2007 calendar year, subtract, to the extent included, twenty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(2) For tax years beginning in the 2008 calendar year, subtract, to the extent included, forty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(3) For tax years beginning in the 2009 calendar year, subtract, to the extent included, sixty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(4) For tax years beginning in the 2010 calendar year, subtract, to the extent included, eighty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

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

d. For tax years beginning on or after January 1, 2011, subtract, to the extent included, the amount of social security benefits taxable under section 86 of the Internal Revenue Code.

Sec. 2. Section 422.7, subsection 31, Code Supplement 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, 2007, 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, 2008, 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, 2009, 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, 2010, 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, 2011, 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. 3. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. This Act takes effect January 1, 2007, and applies to tax years beginning on or after that date.

EXPLANATION

This bill phases out the state income tax on social security benefits over a five-year period and phases out the state income tax on pension and retirement income over the same five-year period.

For the tax year beginning on January 1, 2007, 20 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2008, 40 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2009, 60 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2010, 80 percent of taxable social security benefits are exempted; and for tax years beginning on or after January 1, 2011, 100 percent of social security benefits are exempted from state income taxation.

For the tax year beginning January 1, 2007, 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, 2008, an additional 40 percent is exempted; for the tax year beginning January 1, 2009, an additional 60 percent is exempted; for the tax year beginning January 1, 2010, an additional 80 percent is exempted; and for tax years beginning January 1, 2011, and all subsequent tax years, the total amount of pension and retirement income is exempted from state income taxation.

The bill takes effect January 1, 2007, and applies to tax years beginning on or after that date.