FEB 2

WAYS & MEANS CALENDAR

HOUSE FILE 461

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 26)

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 461

TLSB 1690HV 81

sc/sh/8

S.F. ________ H.F. 461

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, but before January 1, 2010. 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, 2010.

b. (1) For tax years beginning in the 2006 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 2007 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 2008 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 2009 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, 2010, 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 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, 2006, 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, 2007, 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, 2008, 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, 2009, 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, 2010, 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, 2006, 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, 2006, 20 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2007, 40 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2008, 60 percent of taxable social security benefits are exempted; for the tax year beginning on January 1, 2009, 80 percent of taxable social security benefits are exempted; and for tax years beginning on or after January 1, 2010, 100 percent of social security benefits are exempted from state income taxation.

For the tax year beginning January 1, 2006, 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, 2007, an additional 40 percent is exempted; for the tax year beginning January 1, 2008, an additional 60 percent is exempted; for the tax year beginning January 1, 2009, an additional 80 percent is exempted; and for tax years beginning January 1, 2010, 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, 2006, and applies to tax years beginning on or after that date.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 461 - Phase-out Social Security & Pensions (LSB 1690 HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 461 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, 2006.

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 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 2000 and prior years. The result was adjusted for the inclusion of non-residents subject to Iowa income tax. To age the information from tax year 2000 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income and the growth in the retirement-age population.

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 2006: $ 4.3 million
- FY 2007: $ 54.1 million
- FY 2008: $108.8 million
- FY 2009: $166.9 million
- FY 2010: $224.6 million
- FY 2011: $249.2 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), annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2011.

Source

Department of Revenue

/s/ Holly M. Lyons

March 2, 2005

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.

EIGHTY-FIRST GENERAL ASSEMBLY
2005 REGULAR SESSION
DAILY

HOUSE CLIP SHEET

APRIL 6, 2005

HOUSE FILE 461

H-1330

Amend House File 461 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, 2006, 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."

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

By HOGG of Linn

H-1330 FILED APRIL 5, 2005