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WAYS & MEANS

SENATE FILE 2044

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(COMPANION TO HF 2045 BY COMMITTEE
ON WAYS AND MEANS)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

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

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

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WAYS & MEANS

SF 2044

1 Section 1. Section 422.7, subsection 13, Code Supplement
2 2005, is amended to read as follows:

3 13. a. Subtract, to the extent included, the amount of
4 additional social security benefits taxable under the Internal
5 Revenue Code for tax years beginning on or after January 1,
6 1994, but before January 1, 2011. The amount of social
7 security benefits taxable as provided in section 86 of the
8 Internal Revenue Code, as amended up to and including January
9 1, 1993, continues to apply for state income tax purposes for
10 tax years beginning on or after January 1, 1994, but before
11 January 1, 2011.

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

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

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

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

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

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

5 Sec. 2. Section 422.7, subsection 31, Code Supplement
6 2005, is amended to read as follows:

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

34 b. For the tax year beginning January 1, 2007, subtract an
35 amount equal to twenty percent of the income described in

1 paragraph "a" after the exclusion in paragraph "a" is
2 subtracted.

3 c. For the tax year beginning January 1, 2008, subtract an
4 amount equal to forty percent of the income described in
5 paragraph "a" after the exclusion in paragraph "a" is
6 subtracted.

7 d. For the tax year beginning January 1, 2009, subtract an
8 amount equal to sixty percent of the income described in
9 paragraph "a" after the exclusion in paragraph "a" is
10 subtracted.

11 e. For the tax year beginning January 1, 2010, subtract an
12 amount equal to eighty percent of the income described in
13 paragraph "a" after the exclusion in paragraph "a" is
14 subtracted.

15 f. For tax years beginning on or after January 1, 2011,
16 subtract the total amount of the income described in paragraph
17 "a".

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

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

27 EXPLANATION

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

32 For the tax year beginning on January 1, 2007, 20 percent
33 of taxable social security benefits are exempted; for the tax
34 year beginning on January 1, 2008, 40 percent of taxable
35 social security benefits are exempted; for the tax year

1 beginning on January 1, 2009, 60 percent of taxable social
2 security benefits are exempted; for the tax year beginning on
3 January 1, 2010, 80 percent of taxable social security
4 benefits are exempted; and for tax years beginning on or after
5 January 1, 2011, 100 percent of social security benefits are
6 exempted from state income taxation.

7 For the tax year beginning January 1, 2007, an additional
8 20 percent of pension or retirement income is exempted after
9 the \$6,000 (for single filers) or \$12,000 (for married filers)
10 is subtracted. For the tax year beginning January 1, 2008, an
11 additional 40 percent is exempted; for the tax year beginning
12 January 1, 2009, an additional 60 percent is exempted; for the
13 tax year beginning January 1, 2010, an additional 80 percent
14 is exempted; and for tax years beginning January 1, 2011, and
15 all subsequent tax years, the total amount of pension and
16 retirement income is exempted from state income taxation.

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

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