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WAYS & MEANS

SENATE FILE 2044

BY TINSMAN, JOHNSON, PUTNEY, WARD, BOETTGER, MILLER, GASKILL, ZIEMAN, BEHN, IVERSON, LAMBERTI, McKIBBEN, McKINLEY, HAHN, KETTERING, and BRUNKHORST

(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

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 5621XS 81
mg/sh/8

WAYS & MEANS

SF 2044

S.F. 2044 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.