

# Senate Study Bill 3278

SENATE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CO=CHAIRPERSON BOLKCOM)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

## A BILL FOR

1 An Act relating to elderly income tax relief by providing for an  
2 elderly taxpayer income tax exclusion and the phasing out of  
3 the income tax on social security benefits and including  
4 effective and applicability date provisions.  
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
6 TLSB 6729XK 81  
7 mg/je/5

PAG LIN

1 1 Section 1. Section 422.5, Code 2005, is amended by adding  
2 the following new subsection:  
1 3 NEW SUBSECTION. 2A. However, the tax shall not be imposed  
1 4 on a resident or nonresident who is at least sixty-five years  
1 5 old on December 31 of the tax year and whose net income, as  
1 6 defined in section 422.7, is twenty-four thousand dollars or  
1 7 less in the case of married persons filing jointly or filing  
1 8 separately on a combined return, unmarried heads of household,  
1 9 and surviving spouses or eighteen thousand dollars or less in  
1 10 the case of all other persons; but in the event that the  
1 11 payment of tax under this division would reduce the net income  
1 12 to less than twenty-four thousand dollars or eighteen thousand  
1 13 dollars as applicable, then the tax shall be reduced to that  
1 14 amount which would result in allowing the taxpayer to retain a  
1 15 net income of twenty-four thousand dollars or eighteen  
1 16 thousand dollars as applicable. The preceding sentence does  
1 17 not apply to estates or trusts. For the purpose of this  
1 18 subsection, the entire net income, including any part of the  
1 19 net income not allocated to Iowa, shall be taken into account.  
1 20 For purposes of this subsection, net income includes all  
1 21 amounts of pensions or other retirement income received from  
1 22 any source which is not taxable under this division as a  
1 23 result of the government pension exclusions in section 422.7,  
1 24 or any other state law. If the combined net income of a  
1 25 husband and wife exceeds twenty-four thousand dollars, neither  
1 26 of them shall receive the benefit of this subsection, and it  
1 27 is immaterial whether they file a joint return or separate  
1 28 returns. However, if a husband and wife file separate returns  
1 29 and have a combined net income of twenty-four thousand dollars  
1 30 or less, neither spouse shall receive the benefit of this  
1 31 paragraph, if one spouse has a net operating loss and elects  
1 32 to carry back or carry forward the loss as provided in section  
1 33 422.9, subsection 3. A person who is claimed as a dependent  
1 34 by another person as defined in section 422.12 shall not  
1 35 receive the benefit of this subsection if the person claiming  
2 1 the dependent has net income exceeding twenty-four thousand  
2 2 dollars or eighteen thousand dollars as applicable or the  
2 3 person claiming the dependent and the person's spouse have  
2 4 combined net income exceeding twenty-four thousand dollars or  
2 5 eighteen thousand dollars as applicable.  
2 6 In addition, if the married persons', filing jointly or  
2 7 filing separately on a combined return, unmarried head of  
2 8 household's, or surviving spouse's net income exceeds  
2 9 twenty-four thousand dollars, the regular tax imposed under  
2 10 this division shall be the lesser of the maximum state  
2 11 individual income tax rate times the portion of the net income  
2 12 in excess of twenty-four thousand dollars or the regular tax  
2 13 liability computed without regard to this sentence. Taxpayers  
2 14 electing to file separately shall compute the alternate tax

2 15 described in this paragraph using the total net income of the  
2 16 husband and wife. The alternate tax described in this  
2 17 paragraph does not apply if one spouse elects to carry back or  
2 18 carry forward the loss as provided in section 422.9,  
2 19 subsection 3.

2 20 This subsection applies even though one spouse has not  
2 21 attained the age of sixty-five, if the other spouse is at  
2 22 least sixty-five at the end of the tax year.

2 23 This subsection is repealed January 1, 2009.

2 24 Sec. 2. Section 422.5, Code 2005, is amended by adding the  
2 25 following new subsection:

2 26 NEW SUBSECTION. 2B. However, the tax shall not be imposed  
2 27 on a resident or nonresident who is at least sixty-five years  
2 28 old on December 31 of the tax year and whose net income, as  
2 29 defined in section 422.7, is thirty-two thousand dollars or  
2 30 less in the case of married persons filing jointly or filing  
2 31 separately on a combined return, unmarried heads of household,  
2 32 and surviving spouses or twenty-four thousand dollars or less  
2 33 in the case of all other persons; but in the event that the  
2 34 payment of tax under this division would reduce the net income  
2 35 to less than thirty-two thousand dollars or twenty-four  
3 1 thousand dollars as applicable, then the tax shall be reduced  
3 2 to that amount which would result in allowing the taxpayer to  
3 3 retain a net income of thirty-two thousand dollars or  
3 4 twenty-four thousand dollars as applicable. The preceding  
3 5 sentence does not apply to estates or trusts. For the purpose  
3 6 of this subsection, the entire net income, including any part  
3 7 of the net income not allocated to Iowa, shall be taken into  
3 8 account. For purposes of this subsection, net income includes  
3 9 all amounts of pensions or other retirement income received  
3 10 from any source which is not taxable under this division as a  
3 11 result of the government pension exclusions in section 422.7,  
3 12 or any other state law. If the combined net income of a  
3 13 husband and wife exceeds thirty-two thousand dollars, neither  
3 14 of them shall receive the benefit of this subsection, and it  
3 15 is immaterial whether they file a joint return or separate  
3 16 returns. However, if a husband and wife file separate returns  
3 17 and have a combined net income of thirty-two thousand dollars  
3 18 or less, neither spouse shall receive the benefit of this  
3 19 paragraph, if one spouse has a net operating loss and elects  
3 20 to carry back or carry forward the loss as provided in section  
3 21 422.9, subsection 3. A person who is claimed as a dependent  
3 22 by another person as defined in section 422.12 shall not  
3 23 receive the benefit of this subsection if the person claiming  
3 24 the dependent has net income exceeding thirty-two thousand  
3 25 dollars or twenty-four thousand dollars as applicable or the  
3 26 person claiming the dependent and the person's spouse have  
3 27 combined net income exceeding thirty-two thousand dollars or  
3 28 twenty-four thousand dollars as applicable.

3 29 In addition, if the married persons', filing jointly or  
3 30 filing separately on a combined return, unmarried head of  
3 31 household's, or surviving spouse's net income exceeds  
3 32 thirty-two thousand dollars, the regular tax imposed under  
3 33 this division shall be the lesser of the maximum state  
3 34 individual income tax rate times the portion of the net income  
3 35 in excess of thirty-two thousand dollars or the regular tax  
4 1 liability computed without regard to this sentence. Taxpayers  
4 2 electing to file separately shall compute the alternate tax  
4 3 described in this paragraph using the total net income of the  
4 4 husband and wife. The alternate tax described in this  
4 5 paragraph does not apply if one spouse elects to carry back or  
4 6 carry forward the loss as provided in section 422.9,  
4 7 subsection 3.

4 8 This subsection applies even though one spouse has not  
4 9 attained the age of sixty-five, if the other spouse is at  
4 10 least sixty-five at the end of the tax year.

4 11 Sec. 3. Section 422.5, subsection 7, Code 2005, is amended  
4 12 to read as follows:

4 13 7. In addition to the other taxes imposed by this section,  
4 14 a tax is imposed on the amount of a lump sum distribution for  
4 15 which the taxpayer has elected under section 402(e) of the  
4 16 Internal Revenue Code to be separately taxed for federal  
4 17 income tax purposes for the tax year. The rate of tax is  
4 18 equal to twenty-five percent of the separate federal tax  
4 19 imposed on the amount of the lump sum distribution. A  
4 20 nonresident is liable for this tax only on that portion of the  
4 21 lump sum distribution allocable to Iowa. The total amount of  
4 22 the lump sum distribution subject to separate federal tax  
4 23 shall be included in net income for purposes of determining  
4 24 eligibility under ~~the thirteen thousand five hundred dollar or~~  
~~4 25 less or nine thousand dollar or less exclusion, as applicable~~

4 26 subsections 2 and 2A or 2B, as applicable.

4 27 Sec. 4. Section 422.7, subsection 13, Code Supplement  
4 28 2005, is amended to read as follows:

4 29 13. a. Subtract, to the extent included, the amount of  
4 30 additional social security benefits taxable under the Internal  
4 31 Revenue Code for tax years beginning on or after January 1,  
4 32 1994, but before January 1, 2014. The amount of social  
4 33 security benefits taxable as provided in section 86 of the  
4 34 Internal Revenue Code, as amended up to and including January  
4 35 1, 1993, continues to apply for state income tax purposes for  
5 1 tax years beginning on or after January 1, 1994, but before  
5 2 January 1, 2014.

5 3 b. (1) For tax years beginning in the 2007 calendar year,  
5 4 subtract, to the extent included, thirty-two percent of  
5 5 taxable social security benefits remaining after the  
5 6 subtraction in paragraph "a".

5 7 (2) For tax years beginning in the 2008 calendar year,  
5 8 subtract, to the extent included, thirty-two percent of  
5 9 taxable social security benefits remaining after the  
5 10 subtraction in paragraph "a".

5 11 (3) For tax years beginning in the 2009 calendar year,  
5 12 subtract, to the extent included, forty-three percent of  
5 13 taxable social security benefits remaining after the  
5 14 subtraction in paragraph "a".

5 15 (4) For tax years beginning in the 2010 calendar year,  
5 16 subtract, to the extent included, fifty-five percent of  
5 17 taxable social security benefits remaining after the  
5 18 subtraction in paragraph "a".

5 19 (5) For tax years beginning in the 2011 calendar year,  
5 20 subtract, to the extent included, sixty-seven percent of  
5 21 taxable social security benefits remaining after the  
5 22 subtraction in paragraph "a".

5 23 (6) For tax years beginning in the 2012 calendar year,  
5 24 subtract, to the extent included, seventy-seven percent of  
5 25 taxable social security benefits remaining after the  
5 26 subtraction in paragraph "a".

5 27 (7) For tax years beginning in the 2013 calendar year,  
5 28 subtract, to the extent included, eighty-nine percent of  
5 29 taxable social security benefits remaining after the  
5 30 subtraction in paragraph "a".

5 31 c. Married taxpayers, who file a joint federal income tax  
5 32 return and who elect to file separate returns or who elect  
5 33 separate filing on a combined return for state income tax  
5 34 purposes, shall allocate between the spouses the amount of  
5 35 benefits subtracted under paragraphs "a" and "b" from net  
6 1 income in the ratio of the social security benefits received  
6 2 by each spouse to the total of these benefits received by both  
6 3 spouses.

6 4 d. For tax years beginning on or after January 1, 2014,  
6 5 subtract, to the extent included, the amount of social  
6 6 security benefits taxable under section 86 of the Internal  
6 7 Revenue Code.

6 8 Sec. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

6 9 1. The section of this Act enacting section 422.5,  
6 10 subsection 2A, takes effect January 1, 2007, and applies to  
6 11 tax years beginning on or after January 1, 2007, but before  
6 12 January 1, 2009.

6 13 2. The section of this Act enacting section 422.5,  
6 14 subsection 2B, takes effect January 1, 2009, for tax years  
6 15 beginning on or after that date.

6 16 3. The section of this Act amending section 422.5,  
6 17 subsection 7, takes effect January 1, 2007, for tax years  
6 18 beginning on or after that date.

6 19 4. The section of this Act amending section 422.7,  
6 20 subsection 13, takes effect January 1, 2007, for tax years  
6 21 beginning on or after that date.

6 22 EXPLANATION

6 23 This bill makes changes to the individual income tax that  
6 24 benefits elderly individuals.

6 25 Code section 422.5, new subsections 2A and 2B, are enacted,  
6 26 which provide that no tax is owed if an individual is 65 years  
6 27 of age and has a net income of less than certain amounts.

6 28 These amounts are \$24,000 if the individual is married, a head  
6 29 of household, or a surviving spouse, and \$18,000 for all other  
6 30 persons. These amounts apply to the 2007 and 2008 tax years.

6 31 Beginning with the 2009 tax year, the amounts are increased to  
6 32 \$32,000 and \$24,000, respectively. Code section 422.5,  
6 33 subsection 7, is amended to specify that the total amount of a

6 34 lump-sum distribution subject to federal tax is to be included  
6 35 in income for purposes of determining eligibility under new

7 1 subsection 2A or 2B, as applicable.

7 2 Code section 422.7, subsection 13, relating to the amount  
7 3 of social security benefits taxed, is amended to phase out the  
7 4 taxing of such benefits beginning with the 2007 tax year and  
7 5 ending with the 2014 tax year when the entire amount of social  
7 6 security benefits is exempt from tax.  
7 7 LSB 6729XK 81  
7 8 mg:rj/je/5