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

An Act relating to elderly income tax relief by providing for an elderly taxpayer income tax exclusion and the phasing out of the income tax on social security benefits and including effective and applicability date provisions.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
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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 twenty=four 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 eighteen 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 twenty=four thousand dollars or eighteen 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 twenty=four thousand dollars or eighteen 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 twenty=four 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 twenty=four 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 twenty=four thousand dollars or eighteen thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding twenty=four thousand dollars or eighteen 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 twenty=four 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 twenty=four 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.

This subsection is repealed January 1, 2009.

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

NEW SUBSECTION. 2B. 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 thirty=two 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 twenty=four 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 thirty=two thousand dollars or twenty=four 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 thirty=two thousand dollars or twenty=four 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 thirty=two 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 thirty=two 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 thirty=two thousand dollars or twenty=four thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding thirty=two thousand dollars or twenty=four 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 thirty=two 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 thirty=two 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. 3. 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 or 2B, as applicable.

Sec. 4. 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, 2014. 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, 2014.

b. (1) For tax years beginning in the 2007 calendar year, subtract, to the extent included, thirty=two 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, thirty=two 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, forty=three 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, fifty=five percent of taxable social security benefits remaining after the subtraction in paragraph "a".

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

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

(7) For tax years beginning in the 2013 calendar year, subtract, to the extent included, eighty=nine 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, 2014, subtract, to the extent included, the amount of social security benefits taxable under section 86 of the Internal Revenue Code.

Sec. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

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

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

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

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

EXPLANATION

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

Code section 422.5, new subsections 2A and 2B, are enacted, which provide that no tax is owed if an individual is 65 years of age and has a net income of less than certain amounts. These amounts are $24,000 if the individual is married, a head of household, or a surviving spouse, and $18,000 for all other persons. These amounts apply to the 2007 and 2008 tax years. Beginning with the 2009 tax year, the amounts are increased to $32,000 and $24,000, respectively. Code section 422.5, subsection 7, is amended to specify that the total amount of a lump=sum distribution subject to federal tax is to be included in income for purposes of determining eligibility under new subsection 2A or 2B, as applicable.

Code section 422.7, subsection 13, relating to the amount of social security benefits taxed, is amended to phase out the taxing of such benefits beginning with the 2007 tax year and ending with the 2014 tax year when the entire amount of social security benefits is exempt from tax.

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