

Senate File 2402 - Introduced

SENATE FILE 2402

BY SMITH

A BILL FOR

1 An Act providing for an exclusion from the individual
2 income tax for certain amounts of governmental pension
3 or retirement pay related to periods of employment not
4 covered by the federal Social Security Act, and including
5 applicability provisions.

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

1 Section 1. Section 422.7, Code 2018, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 13A. *a.* Subtract, to the extent included,
4 the total amount of governmental pension or retirement pay
5 received by a taxpayer or the qualified beneficiary of a
6 taxpayer from a public retirement system to the extent the
7 governmental pension or retirement pay relates to a period
8 of public employment that was not covered under Tit. II of
9 the federal Social Security Act and for which social security
10 retirement contributions with respect to wages under the
11 federal Insurance Contributions Act were not made, not to
12 exceed an amount which the taxpayer would have received during
13 the tax year as federal social security retirement benefits for
14 that same period of public employment had the employment been
15 covered under Tit. II of the federal Social Security Act and
16 had social security retirement contributions with respect to
17 wages been made under the federal Insurance Contributions Act.

18 *b.* The exclusion of amounts of governmental pension or
19 retirement pay under this subsection is in addition to any
20 exclusion provided under subsection 31.

21 *c.* The director of revenue shall adopt rules pursuant to
22 chapter 17A to administer this subsection, including but not
23 limited to rules for determining the amount of social security
24 benefits a taxpayer or the qualified beneficiary would have
25 received during a tax year.

26 Sec. 2. APPLICABILITY. This Act applies to tax years
27 beginning on or after January 1, 2019.

28 EXPLANATION

29 The inclusion of this explanation does not constitute agreement with
30 the explanation's substance by the members of the general assembly.

31 BACKGROUND. Certain public employers do not participate in
32 the federal old-age, survivors, and disability benefits program
33 under Tit. II of the federal Social Security Act (social
34 security retirement). Thus, employees of that public employer
35 are not subject to the mandatory wage contributions related

1 to social security retirement under the federal Insurance
2 Contributions Act (FICA social security tax) and do not receive
3 social security retirement benefits with respect to that period
4 of public employment. Iowa excludes social security retirement
5 benefits from taxation under the individual income tax.

6 BILL CHANGES. This bill provides an exclusion from the
7 individual income tax for governmental pension or retirement
8 pay received by a taxpayer or the qualified beneficiary of
9 a taxpayer from a public retirement system to the extent it
10 relates to a period of public employment that was not covered
11 by social security retirement and for which FICA social
12 security tax was not collected and paid. The exclusion cannot
13 exceed an amount equal to the social security retirement
14 benefits the taxpayer would have received during the tax year
15 with respect to that period of public employment had the
16 employment been covered by social security retirement and had
17 FICA social security tax been collected and paid.

18 The bill provides that this exclusion is in addition to the
19 general pension exclusion in Code section 422.7(31).

20 By operation of law, this excluded retirement income will
21 be included in the calculation of net income for purposes of
22 determining the income tax return filing threshold, and for
23 purposes of the alternate tax calculation in Code section
24 422.5, in the same manner as social security retirement
25 benefits are.

26 The bill requires the director of the department of revenue
27 to adopt rules to administer the exemption, including rules for
28 determining the amount of social security benefits a taxpayer
29 or the qualified beneficiary would have received during a tax
30 year.

31 The bill applies to tax years beginning on or after January
32 1, 2019.