

Senate File 34 - Introduced

SENATE FILE 34

BY ZAUN

A BILL FOR

1 An Act providing an exemption from the computation of the
2 individual income tax of certain amounts of retirement
3 income and including retroactive applicability provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.5, subsection 3, paragraph a, Code
2 2017, is amended to read as follows:

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

1 422.12 shall not receive the benefit of **this subsection** if
2 the person claiming the dependent has net income exceeding
3 thirteen thousand five hundred dollars or nine thousand dollars
4 as applicable or the person claiming the dependent and the
5 person's spouse have combined net income exceeding thirteen
6 thousand five hundred dollars or nine thousand dollars as
7 applicable.

8 Sec. 2. Section 422.5, subsection 3, Code 2017, is amended
9 by adding the following new paragraph:

10 NEW PARAGRAPH. *c.* (1) For purposes of this subsection,
11 net income includes all amounts of pensions or other retirement
12 income, except for military retirement pay excluded under
13 section 422.7, subsection 31A, paragraph "a", or section 422.7,
14 subsection 31B, paragraph "a", and except for retirement income
15 excluded under section 422.7, subsection 31C, received from any
16 source which is not taxable under this division as a result
17 of the government pension exclusions in section 422.7, or any
18 other state law.

19 (2) This paragraph "c" is repealed January 1, 2021.

20 Sec. 3. Section 422.5, subsection 3B, paragraph a, Code
21 2017, is amended to read as follows:

22 *a.* The tax shall not be imposed on a resident or nonresident
23 who is at least sixty-five years old on December 31 of
24 the tax year and whose net income, as defined in section
25 422.7, is thirty-two thousand dollars or less in the case
26 of married persons filing jointly or filing separately on a
27 combined return, heads of household, and surviving spouses or
28 twenty-four thousand dollars or less in the case of all other
29 persons; but in the event that the payment of tax under this
30 division would reduce the net income to less than thirty-two
31 thousand dollars or twenty-four thousand dollars as applicable,
32 then the tax shall be reduced to that amount which would result
33 in allowing the taxpayer to retain a net income of thirty-two
34 thousand dollars or twenty-four thousand dollars as applicable.
35 The preceding sentence does not apply to estates or trusts.

1 For the purpose of [this subsection](#), the entire net income,
 2 including any part of the net income not allocated to Iowa,
 3 shall be taken into account. ~~For purposes of [this subsection](#),~~
 4 ~~net income includes all amounts of pensions or other retirement~~
 5 ~~income, except for military retirement pay excluded under~~
 6 ~~[section 422.7, subsection 31A](#), paragraph "a", or [section 422.7,](#)~~
 7 ~~[subsection 31B](#), paragraph "a", received from any source which is~~
 8 ~~not taxable under [this division](#) as a result of the government~~
 9 ~~pension exclusions in [section 422.7](#), or any other state law.~~

10 If the combined net income of a husband and wife exceeds
 11 thirty-two thousand dollars, neither of them shall receive the
 12 benefit of [this subsection](#), and it is immaterial whether they
 13 file a joint return or separate returns. However, if a husband
 14 and wife file separate returns and have a combined net income
 15 of thirty-two thousand dollars or less, neither spouse shall
 16 receive the benefit of this paragraph, if one spouse has a net
 17 operating loss and elects to carry back or carry forward the
 18 loss as provided in [section 422.9, subsection 3](#). A person
 19 who is claimed as a dependent by another person as defined in
 20 [section 422.12](#) shall not receive the benefit of [this subsection](#)
 21 if the person claiming the dependent has net income exceeding
 22 thirty-two thousand dollars or twenty-four thousand dollars
 23 as applicable or the person claiming the dependent and the
 24 person's spouse have combined net income exceeding thirty-two
 25 thousand dollars or twenty-four thousand dollars as applicable.

26 Sec. 4. [Section 422.5, subsection 3B, Code 2017](#), is amended
 27 by adding the following new paragraph:

28 NEW PARAGRAPH. *d.* (1) For purposes of this subsection,
 29 net income includes all amounts of pensions or other retirement
 30 income, except for military retirement pay excluded under
 31 [section 422.7, subsection 31A](#), paragraph "a", or [section 422.7,](#)
 32 [subsection 31B](#), paragraph "a", and except for retirement income
 33 excluded under [section 422.7, subsection 31C](#), received from any
 34 source which is not taxable under this division as a result
 35 of the government pension exclusions in [section 422.7](#), or any

1 other state law.

2 (2) This paragraph "d" is repealed January 1, 2021.

3 Sec. 5. Section 422.7, subsection 31, Code 2017, is amended
4 to read as follows:

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

31 b. This subsection is repealed January 1, 2021.

32 Sec. 6. Section 422.7, subsection 31A, Code 2017, is amended
33 by adding the following new paragraph:

34 NEW PARAGRAPH. c. This section is repealed January 1, 2021.

35 Sec. 7. Section 422.7, subsection 31B, Code 2017, is amended

1 by adding the following new paragraph:

2 NEW PARAGRAPH. *c.* This subsection is repealed January 1,
3 2021.

4 Sec. 8. Section 422.7, Code 2017, is amended by adding the
5 following new subsection:

6 NEW SUBSECTION. 31C. *a.* (1) For tax years beginning
7 in the 2017 calendar year, subtract, to the extent included,
8 twenty percent of retirement income received by a taxpayer
9 remaining after the subtractions in subsections 31, 31A, and
10 31B.

11 (2) For tax years beginning in the 2018 calendar year,
12 subtract, to the extent included, forty percent of retirement
13 income received by a taxpayer remaining after the subtractions
14 in subsections 31, 31A, and 31B.

15 (3) For tax years beginning in the 2019 calendar year,
16 subtract, to the extent included, sixty percent of retirement
17 income received by a taxpayer remaining after the subtractions
18 in subsections 31, 31A, and 31B.

19 (4) For tax years beginning in the 2020 calendar year,
20 subtract, to the extent included, eighty percent of retirement
21 income received by a taxpayer remaining after the subtractions
22 in subsections 31, 31A, and 31B.

23 (5) For tax years beginning on or after January 1, 2021,
24 subtract, to the extent included, retirement income received
25 by a taxpayer.

26 *b.* For purposes of this subsection, "*retirement income*"
27 means a governmental or other pension or retirement pay,
28 including but not limited to defined benefit or defined
29 contribution plans, annuities, individual retirement accounts,
30 plans maintained or contributed to by an employer, or
31 maintained or contributed to by a self-employed person as an
32 employer, and deferred compensation plans or any earnings
33 attributable to the deferred compensation plans. "*Retirement*
34 *income*" includes amounts received as survivor benefits by a
35 taxpayer from the federal government pursuant to 10 U.S.C

1 §1447, et seq.

2 Sec. 9. RETROACTIVE APPLICABILITY. This Act applies
3 retroactively to January 1, 2017, for tax years beginning on
4 or after that date.

5 EXPLANATION

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

8 This bill relates to the exclusion of retirement income from
9 the computation of net income for purposes of the individual
10 income tax.

11 Under current law, a taxpayer may exclude all retirement
12 pay, including certain survivor benefits, received from the
13 federal government for military service performed in the armed
14 forces, the armed forces military reserve, or national guard.

15 In addition, a taxpayer who is disabled, who is at least 55
16 years of age, or who is the surviving spouse or other specified
17 survivor of that qualifying taxpayer, may exclude a maximum
18 of \$6,000 of other retirement income (\$12,000 for married
19 couples).

20 The bill phases in over a five-year period the complete
21 exclusion from the individual income tax of a taxpayer's
22 retirement income remaining after the two exclusions referenced
23 above. The percentage of this retirement income that is
24 excluded for tax years beginning in 2017, 2018, 2019, and
25 2020, is 20 percent, 40 percent, 60 percent, and 80 percent,
26 respectively. For tax years beginning in 2021 or later, 100
27 percent of a taxpayer's retirement income will be excluded from
28 the individual income tax.

29 The bill also excludes this retirement income from the
30 calculation of net income for purposes of determining whether
31 or not a taxpayer's net income exceeds the amount at which the
32 individual income tax will not be imposed pursuant to Code
33 section 422.5(3) or Code section 422.5(3B), and for which an
34 individual income tax return is not required to be filed, and
35 for purposes of calculating the alternate tax in Code section

1 422.5, and further provides that any retirement income excluded
2 from the individual income tax will not be added back to these
3 calculations for tax years beginning in 2021 or later.

4 The bill defines "retirement income" for purposes of the
5 exclusion.

6 The bill applies retroactively to January 1, 2017, for tax
7 years beginning on or after that date.