

**Senate File 36 - Introduced**

SENATE FILE 36

BY ZAUN

**A BILL FOR**

1 An Act creating an exemption from the computation of the  
2 individual income tax of certain amounts of retirement  
3 income and including 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, 2027.

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, 2027.

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, 2027.

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

34 NEW PARAGRAPH. c. This subsection is repealed January 1,  
35 2027.

1     Sec. 7. Section 422.7, subsection 31B, Code 2017, is amended  
2 by adding the following new paragraph:

3     NEW PARAGRAPH. *c.* This subsection is repealed January 1,  
4 2027.

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

7     NEW SUBSECTION. 31C. *a.* Subtract, to the extent included,  
8 the following percentage of the retirement income received by a  
9 taxpayer remaining after the subtractions in subsections 31,  
10 31A, and 31B:

11     (1) For tax years beginning in the 2018 calendar year, ten  
12 percent.

13     (2) For tax years beginning in the 2019 calendar year,  
14 twenty percent.

15     (3) For tax years beginning in the 2020 calendar year,  
16 thirty percent.

17     (4) For tax years beginning in the 2021 calendar year, forty  
18 percent.

19     (5) For tax years beginning in the 2022 calendar year, fifty  
20 percent.

21     (6) For tax years beginning in the 2023 calendar year, sixty  
22 percent.

23     (7) For tax years beginning in the 2024 calendar year,  
24 seventy percent.

25     (8) For tax years beginning in the 2025 calendar year,  
26 eighty percent.

27     (9) For tax years beginning in the 2026 calendar year,  
28 ninety percent.

29     *b.* For tax years beginning on or after January 1, 2027,  
30 subtract, to the extent included, retirement income received  
31 by a taxpayer.

32     *c.* For purposes of this subsection, "*retirement income*"  
33 means a governmental or other pension or retirement pay,  
34 including but not limited to defined benefit or defined  
35 contribution plans, annuities, individual retirement accounts,

1 plans maintained or contributed to by an employer, or  
2 maintained or contributed to by a self-employed person as an  
3 employer, and deferred compensation plans or any earnings  
4 attributable to the deferred compensation plans. "Retirement  
5 income" includes amounts received as survivor benefits by a  
6 taxpayer from the federal government pursuant to U.S.C. §1447,  
7 et seq.

8 Sec. 9. APPLICABILITY. This Act applies to tax years  
9 beginning on or after January 1, 2018.

10 EXPLANATION

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

13 This bill relates to the exclusion of retirement income from  
14 the computation of net income for purposes of the individual  
15 income tax.

16 Under current law, a taxpayer may exclude all retirement  
17 pay, including certain survivor benefits, received from the  
18 federal government for military service performed in the armed  
19 forces, the armed forces military reserve, or national guard.  
20 In addition, a taxpayer who is disabled, who is at least 55  
21 years of age, or who is the surviving spouse or other specified  
22 survivor of that qualifying taxpayer, may exclude a maximum  
23 of \$6,000 of other retirement income (\$12,000 for married  
24 couples).

25 The bill phases in over a 10-year period the complete  
26 exclusion from the individual income tax of a taxpayer's  
27 retirement income remaining after the two exclusions referenced  
28 above. The percentage of this retirement income that is  
29 excluded for tax years beginning in 2018, 2019, 2020, 2021,  
30 2022, 2023, 2024, 2025, and 2026 is 10 percent, 20 percent, 30  
31 percent, 40 percent, 50 percent, 60 percent, 70 percent, 80  
32 percent, and 90 percent, respectively. For tax years beginning  
33 in 2027 or later, 100 percent of a taxpayer's retirement income  
34 will be excluded from the individual income tax.

35 The bill also excludes this retirement income from the

1 calculation of net income for purposes of determining whether  
2 or not a taxpayer's net income exceeds the amount at which the  
3 individual income tax will not be imposed pursuant to Code  
4 section 422.5(3) or Code section 422.5(3B), and for which an  
5 individual income tax return is not required to be filed, and  
6 for purposes of calculating the alternate tax in Code section  
7 422.5, and further provides that any retirement income excluded  
8 from the individual income tax will not be added back to these  
9 calculations for tax years beginning in 2027 or later.

10 The bill defines "retirement income" for purposes of the  
11 exclusion.

12 The bill applies to tax years beginning on or after January  
13 1, 2018.