

Senate File 195 - Introduced

SENATE FILE 195

BY ZAUN

A BILL FOR

1 An Act relating to the exclusion of retirement income from the
2 computation of the individual income tax including providing
3 an exclusion for the federal civil service retirement
4 system, and phasing in an exclusion of other retirement
5 income, and including retroactive applicability provisions.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.5, subsection 3, paragraph a, Code
2 2021, 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; but
9 in the event that the payment of tax under [this subchapter](#)
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", or~~
22 ~~[section 422.7, subsection 31B](#), paragraph "a", received from any~~
23 ~~source which is not taxable under [this subchapter](#) 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 2021, 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", or retirement income excluded
15 under section 422.7, subsection 31C, and except for retirement
16 income excluded under section 422.7, subsection 31D, paragraph
17 "a", received from any source which is not taxable under this
18 subchapter as a result of the government pension exclusions in
19 section 422.7, or any other state law.

20 (2) This paragraph "c" is repealed January 1, 2025.

21 Sec. 3. Section 422.5, subsection 3B, paragraph a, Code
22 2021, is amended to read as follows:

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

1 The preceding sentence does not apply to estates or trusts.
2 For the purpose of [this subsection](#), the entire net income,
3 including any part of the net income not allocated to Iowa,
4 shall be taken into account. ~~For purposes of [this subsection](#),~~
5 ~~net income includes all amounts of pensions or other retirement~~
6 ~~income, except for military retirement pay excluded under~~
7 ~~[section 422.7, subsection 31A](#), paragraph "a", or [section 422.7,](#)~~
8 ~~[subsection 31B](#), paragraph "a", received from any source which is~~
9 ~~not taxable under [this subchapter](#) as a result of the government~~
10 ~~pension exclusions in [section 422.7](#), or any other state law.~~
11 If the combined net income of a husband and wife exceeds
12 thirty-two thousand dollars, neither of them shall receive the
13 benefit of [this subsection](#), and it is immaterial whether they
14 file a joint return or separate returns. However, if a husband
15 and wife file separate returns and have a combined net income
16 of thirty-two thousand dollars or less, neither spouse shall
17 receive the benefit of this paragraph, if one spouse has a net
18 operating loss and elects to carry back or carry forward the
19 loss as provided in [section 422.9, subsection 3](#). A person
20 who is claimed as a dependent by another person as defined in
21 [section 422.12](#) shall not receive the benefit of [this subsection](#)
22 if the person claiming the dependent has net income exceeding
23 thirty-two thousand dollars or twenty-four thousand dollars
24 as applicable or the person claiming the dependent and the
25 person's spouse have combined net income exceeding thirty-two
26 thousand dollars or twenty-four thousand dollars as applicable.

27 Sec. 4. Section 422.5, subsection 3B, Code 2021, is amended
28 by adding the following new paragraph:

29 NEW PARAGRAPH. *d.* (1) For purposes of this subsection,
30 net income includes all amounts of pensions or other retirement
31 income, except for military retirement pay excluded under
32 [section 422.7, subsection 31A](#), paragraph "a", or retirement
33 income excluded under [section 422.7, subsection 31B](#), paragraph
34 "a", or retirement income excluded under [section 422.7,](#)
35 [subsection 31C](#), and except for retirement income excluded under

1 section 422.7, subsection 31D, paragraph "a", received from any
2 source which is not taxable under this subchapter as a result
3 of the government pension exclusions in section 422.7, or any
4 other state law.

5 (2) This paragraph "d" is repealed January 1, 2025.

6 Sec. 5. Section 422.7, subsection 31, Code 2021, is amended
7 to read as follows:

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

34 b. This subsection is repealed January 1, 2025.

35 Sec. 6. Section 422.7, subsection 31A, Code 2021, is amended

1 by adding the following new paragraph:

2 NEW PARAGRAPH. *c.* This subsection is repealed January 1,
3 2025.

4 Sec. 7. Section 422.7, subsection 31B, Code 2021, is amended
5 by adding the following new paragraph:

6 NEW PARAGRAPH. *c.* This subsection is repealed January 1,
7 2025.

8 Sec. 8. Section 422.7, Code 2021, is amended by adding the
9 following new subsections:

10 NEW SUBSECTION. 31C. *a.* Subtract, to the extent included,
11 retirement income received by a taxpayer from the federal civil
12 service retirement system.

13 *b.* Subtract, to the extent included, amounts received as
14 survivor benefits by a taxpayer from the federal civil service
15 system.

16 *c.* The exclusion of retirement income under this subsection
17 is in addition to any exclusion provided under subsection 31.

18 *d.* This subsection is repealed on January 1, 2025.

19 NEW SUBSECTION. 31D. *a.* (1) For tax years beginning
20 in the 2021 calendar year, subtract, to the extent included,
21 twenty percent of retirement income received by a taxpayer
22 remaining after the subtractions in subsections 31, 31A, 31B,
23 and 31C.

24 (2) For tax years beginning in the 2022 calendar year,
25 subtract, to the extent included, forty percent of retirement
26 income received by a taxpayer remaining after the subtractions
27 in subsections 31, 31A, 31B, and 31C.

28 (3) For tax years beginning in the 2023 calendar year,
29 subtract, to the extent included, sixty percent of retirement
30 income received by a taxpayer remaining after the subtractions
31 in subsections 31, 31A, 31B, and 31C.

32 (4) For tax years beginning in the 2024 calendar year,
33 subtract, to the extent included, eighty percent of retirement
34 income received by a taxpayer remaining after the subtractions
35 in subsections 31, 31A, 31B, and 31C.

1 (5) For tax years beginning on or after January 1, 2025,
2 subtract, to the extent included, retirement income received
3 by a taxpayer.

4 b. For purposes of this subsection, "retirement income"
5 means a governmental or other pension or retirement pay,
6 including but not limited to defined benefit or defined
7 contribution plans, annuities, individual retirement accounts,
8 plans maintained or contributed to by an employer, or
9 maintained or contributed to by a self-employed person as an
10 employer, and deferred compensation plans or any earnings
11 attributable to the deferred compensation plans.

12 Sec. 9. RETROACTIVE APPLICABILITY. This Act applies
13 retroactively to January 1, 2021, for tax years beginning on
14 or after that date.

15 EXPLANATION

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

18 This bill relates to the exclusion of retirement income from
19 the computation of net income for purposes of the individual
20 income tax.

21 The bill excludes from the individual income tax all
22 retirement income received by an individual from the federal
23 civil service retirement system, and survivor benefits received
24 from such system.

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

34 The bill also excludes this retirement income from the
35 calculation of net income for purposes of determining whether

1 or not a taxpayer's net income exceeds the amount at which the
2 individual income tax will not be imposed pursuant to Code
3 section 422.5(3) or Code section 422.5(3B), and for which an
4 individual income tax return is not required to be filed, and
5 for purposes of calculating the alternate tax in Code section
6 422.5, and further provides that any retirement income excluded
7 from the individual income tax will not be added back to these
8 calculations for tax years beginning in 2025 or later.

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

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 applies retroactively to January 1, 2021, for tax
21 years beginning on or after that date.