

Senate File 95 - Introduced

SENATE FILE 95

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 8.57E, subsection 2, Code 2021, is
2 amended to read as follows:

3 2. Moneys in the taxpayer relief fund shall only be used
4 pursuant to appropriations or transfers made by the general
5 assembly for tax relief, ~~including but not limited to increases~~
6 ~~in the general retirement income exclusion under section 422.7,~~
7 ~~subsection 31,~~ or reductions in income tax rates.

8 Sec. 2. Section 422.5, subsection 3, paragraph a, Code 2021,
9 is amended to read as follows:

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

1 returns. However, if a husband and wife file separate returns
2 and have a combined net income of thirteen thousand five
3 hundred dollars or less, neither spouse shall receive the
4 benefit of this paragraph, if one spouse has a net operating
5 loss and elects to carry back or carry forward the loss as
6 provided in [section 422.9, subsection 3](#). A person who is
7 claimed as a dependent by another person as defined in section
8 422.12 shall not receive the benefit of [this subsection](#) if
9 the person claiming the dependent has net income exceeding
10 thirteen thousand five hundred dollars or nine thousand dollars
11 as applicable or the person claiming the dependent and the
12 person's spouse have combined net income exceeding thirteen
13 thousand five hundred dollars or nine thousand dollars as
14 applicable.

15 Sec. 3. Section 422.5, subsection 3, Code 2021, is amended
16 by adding the following new paragraph:

17 NEW PARAGRAPH. *c.* (1) For purposes of this subsection,
18 net income includes all amounts of pensions or other retirement
19 income, except for military retirement pay excluded under
20 section 422.7, subsection 31A, paragraph "a", or section 422.7,
21 subsection 31B, paragraph "a", and except for retirement income
22 excluded under section 422.7, subsection 31C, received from any
23 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.

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

27 Sec. 4. Section 422.5, subsection 3B, paragraph a, Code
28 2021, is amended to read as follows:

29 *a.* The tax shall not be imposed on a resident or nonresident
30 who is at least sixty-five years old on December 31 of
31 the tax year and whose net income, as defined in section
32 422.7, is thirty-two thousand dollars or less in the case
33 of married persons filing jointly or filing separately on a
34 combined return, heads of household, and surviving spouses or
35 twenty-four thousand dollars or less in the case of all other

1 persons; but in the event that the payment of tax under this
 2 subchapter would reduce the net income to less than thirty-two
 3 thousand dollars or twenty-four thousand dollars as applicable,
 4 then the tax shall be reduced to that amount which would result
 5 in allowing the taxpayer to retain a net income of thirty-two
 6 thousand dollars or twenty-four thousand dollars as applicable.
 7 The preceding sentence does not apply to estates or trusts.
 8 For the purpose of [this subsection](#), the entire net income,
 9 including any part of the net income not allocated to Iowa,
 10 shall be taken into account. ~~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", received from any source which is~~
 15 ~~not taxable under [this subchapter](#) as a result of the government~~
 16 ~~pension exclusions in [section 422.7](#), or any other state law.~~
 17 If the combined net income of a husband and wife exceeds
 18 thirty-two thousand dollars, neither of them shall receive the
 19 benefit of [this subsection](#), and it is immaterial whether they
 20 file a joint return or separate returns. However, if a husband
 21 and wife file separate returns and have a combined net income
 22 of thirty-two thousand dollars or less, neither spouse shall
 23 receive the benefit of this paragraph, if one spouse has a net
 24 operating loss and elects to carry back or carry forward the
 25 loss as provided in [section 422.9, subsection 3](#). A person
 26 who is claimed as a dependent by another person as defined in
 27 [section 422.12](#) shall not receive the benefit of [this subsection](#)
 28 if the person claiming the dependent has net income exceeding
 29 thirty-two thousand dollars or twenty-four thousand dollars
 30 as applicable or the person claiming the dependent and the
 31 person's spouse have combined net income exceeding thirty-two
 32 thousand dollars or twenty-four thousand dollars as applicable.
 33 Sec. 5. Section 422.5, subsection 3B, Code 2021, is amended
 34 by adding the following new paragraph:
 35 NEW PARAGRAPH. *d.* (1) For purposes of this subsection,

1 net income includes all amounts of pensions or other retirement
2 income, except for military retirement pay excluded under
3 section 422.7, subsection 31A, paragraph "a", or section 422.7,
4 subsection 31B, paragraph "a", and except for retirement income
5 excluded under section 422.7, subsection 31C, received from any
6 source which is not taxable under this division as a result
7 of the government pension exclusions in section 422.7, or any
8 other state law.

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

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

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

1 spouse's respective pension and retirement pay received bears
2 to total combined pension and retirement pay received.

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

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

6 NEW PARAGRAPH. c. This section is repealed January 1, 2025.

7 Sec. 8. Section 422.7, subsection 31B, Code 2021, is amended
8 by adding the following new paragraph:

9 NEW PARAGRAPH. c. This subsection is repealed January 1,
10 2025.

11 Sec. 9. Section 422.7, Code 2021, is amended by adding the
12 following new subsection:

13 NEW SUBSECTION. 31C. a. (1) For tax years beginning
14 in the 2021 calendar year, subtract, to the extent included,
15 twenty percent of retirement income received by a taxpayer
16 remaining after the subtractions in subsections 31, 31A, and
17 31B.

18 (2) For tax years beginning in the 2022 calendar year,
19 subtract, to the extent included, forty percent of retirement
20 income received by a taxpayer remaining after the subtractions
21 in subsections 31, 31A, and 31B.

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

26 (4) For tax years beginning in the 2024 calendar year,
27 subtract, to the extent included, eighty percent of retirement
28 income received by a taxpayer remaining after the subtractions
29 in subsections 31, 31A, and 31B.

30 (5) The paragraph is repealed January 1, 2025.

31 b. For tax years beginning on or after January 1, 2025,
32 subtract, to the extent included, retirement income received
33 by a taxpayer.

34 c. For purposes of this subsection, "*retirement income*"
35 means a governmental or other pension or retirement pay,

1 including but not limited to defined benefit or defined
2 contribution plans, annuities, individual retirement accounts,
3 plans maintained or contributed to by an employer, or
4 maintained or contributed to by a self-employed person as an
5 employer, and deferred compensation plans or any earnings
6 attributable to the deferred compensation plans. "Retirement
7 income" includes amounts received as survivor benefits by a
8 taxpayer from the federal government pursuant to 10 U.S.C.
9 §1447, et seq.

10 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies
11 retroactively to January 1, 2021, for tax years beginning on
12 or after that date.

13 EXPLANATION

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

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

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

23 In addition, a taxpayer who is disabled, who is at least 55
24 years of age, or who is the surviving spouse or other specified
25 survivor of that qualifying taxpayer, may exclude a maximum
26 of \$6,000 of other retirement income (\$12,000 for married
27 couples).

28 The bill strikes a provision permitting moneys in the
29 taxpayer relief fund to be used for increases in the general
30 retirement income exclusions in 422.7(31) because the bill
31 provides for a complete exclusion of such retirement income.

32 The bill phases in over a five-year period the complete
33 exclusion from the individual income tax of a taxpayer's
34 retirement income remaining after the two exclusions referenced
35 above. The percentage of this retirement income that is

1 excluded for tax years beginning in 2021, 2022, 2023, and
2 2024, is 20 percent, 40 percent, 60 percent, and 80 percent,
3 respectively. For tax years beginning in 2025 or later, 100
4 percent of a taxpayer's retirement income will be excluded from
5 the individual income tax.

6 The bill also excludes this retirement income from the
7 calculation of net income for purposes of determining whether
8 or not a taxpayer's net income exceeds the amount at which the
9 individual income tax will not be imposed pursuant to Code
10 section 422.5(3) or Code section 422.5(3B), and for which an
11 individual income tax return is not required to be filed, and
12 for purposes of calculating the alternate tax in Code section
13 422.5, and further provides that any retirement income excluded
14 from the individual income tax will not be added back to these
15 calculations for tax years beginning in 2025 or later.

16 The bill defines "retirement income" for purposes of the
17 exclusion.

18 The bill applies retroactively to January 1, 2021, for tax
19 years beginning on or after that date.