

Senate Study Bill 1126 - Introduced

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON DAWSON)

A BILL FOR

1 An Act relating to individual and corporate income taxes, the
2 insurance premium tax, and including the contingent repeal
3 of the individual income tax, and including effective date
4 provisions.

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

DIVISION I

FUTURE INDIVIDUAL INCOME TAX RATE CHANGES

Section 1. Section 422.5, subsection 2, paragraph b, subparagraph (2), Code 2023, is amended to read as follows:

(2) (a) (i) (A) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, the alternate tax rate is 6.00 percent.

(B) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, the alternate tax rate is 5.70 percent.

(C) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, the alternate tax rate is ~~5.20~~ 4.80 percent.

(D) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, the alternate tax rate is 3.95 percent.

(E) For the tax year beginning on or after January 1, 2027, but before January 1, 2028, the alternate tax rate is 3.35 percent.

(ii) This subparagraph division (a) is repealed January 1, ~~2026~~ 2028.

(b) For tax years beginning on or after January 1, ~~2026~~ 2028, the alternate tax rate is ~~4.40~~ 3.00 percent.

Sec. 2. Section 422.5, subsection 3, paragraph b, subparagraph (2), Code 2023, is amended to read as follows:

(2) (a) (i) (A) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, the alternate tax rate is 6.00 percent.

(B) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, the alternate tax rate is 5.70 percent.

(C) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, the alternate tax rate is ~~5.20~~ 4.80 percent.

(D) For the tax year beginning on or after January 1, 2026,

1 but before January 1, 2027, the alternate tax rate is 3.95
2 percent.

3 (E) For the tax year beginning on or after January 1, 2027,
4 but before January 1, 2028, the alternate tax rate is 3.35
5 percent.

6 (ii) This subparagraph division (a) is repealed January 1,
7 ~~2026~~ 2028.

8 (b) For tax years beginning on or after January 1, ~~2026~~
9 2028, the alternate tax rate is ~~4.40~~ 3.00 percent.

10 Sec. 3. Section 422.5A, subsection 1, paragraph a,
11 subparagraph (3), Code 2023, is amended to read as follows:

12 (3) For the tax year beginning on or after January 1, 2025,
13 but before January 1, 2026:

14 (a) On taxable income from 0 through \$12,000, the rate of
15 ~~4.40~~ 4.00 percent.

16 (b) On taxable income exceeding \$12,000, the rate of ~~4.82~~
17 4.40 percent.

18 Sec. 4. Section 422.5A, subsection 1, paragraph b,
19 subparagraph (3), Code 2023, is amended to read as follows:

20 (3) For the tax year beginning on or after January 1, 2025,
21 but before January 1, 2026:

22 (a) On taxable income from 0 through \$6,000, the rate of
23 ~~4.40~~ 4.00 percent.

24 (b) On taxable income exceeding \$6,000, the rate of ~~4.82~~
25 4.40 percent.

26 Sec. 5. 2022 Iowa Acts, chapter 1002, section 20, is amended
27 to read as follows:

28 SEC. 20. [Section 422.5, subsection 1](#), paragraph a, Code
29 2022, is amended to read as follows:

30 a. (1) A tax is imposed upon every resident and nonresident
31 of the state which tax shall be levied, collected, and paid
32 annually upon and with respect to the entire taxable income as
33 defined in [this subchapter](#) at ~~a rate of three and nine-tenths~~
34 ~~percent.~~ the following rates in the following tax years:

35 (a) For the tax year beginning on or after January 1, 2026,

1 but before January 1, 2027, the rate of 3.55 percent.

2 (b) For the tax year beginning on or after January 1, 2027,
3 but before January 1, 2028, the rate of 2.95 percent.

4 (c) For tax years beginning on or after January 1, 2028, the
5 rate of 2.50 percent.

6 (2) (a) Notwithstanding the rate in subparagraph (1), the
7 department of revenue shall determine the individual income
8 tax rate as provided in this subparagraph. The tax rate in
9 subparagraph (1) shall remain in effect until the rate is
10 adjusted pursuant to this subparagraph. A rate adjusted in
11 this subparagraph shall remain in effect until the rate is
12 adjusted again pursuant to this subparagraph.

13 (b) By November 1, 2029, and by November 1 each year
14 thereafter, until the individual income tax rate equals zero,
15 the department of management shall determine the amount of
16 moneys available in the individual income tax elimination fund
17 in section 8.57E, and the net individual income tax receipts
18 at the close of the preceding fiscal year. The department of
19 revenue shall adjust and apply a new rate based upon the amount
20 of moneys available in the individual income tax elimination
21 fund as provided in subparagraph division (c).

22 (c) (i) The rate shall be adjusted in such a way that the
23 rate would have generated an amount equal to the net receipts
24 generated from the rate in the preceding fiscal year less the
25 amount available in the individual income tax elimination
26 fund in section 8.57E that is used in the calculation in this
27 subparagraph division.

28 (ii) The rate shall not be adjusted unless the rate is able
29 to be adjusted at least one-tenth of one percent. The rate,
30 when adjusted, shall be rounded down to the nearest one-tenth
31 of one percent.

32 (iii) If a determination is made by the department of
33 revenue that the rate is subject to adjustment, the department
34 of revenue shall adjust the rate specified in subparagraph
35 (1), or if the rate has been previously adjusted, adjust the

1 previously adjusted rate.

2 (d) If an adjustment is made pursuant to subparagraph
3 division (c), the amount of moneys in the individual income
4 tax elimination fund used in the calculation in subparagraph
5 division (c) shall be transferred to the general fund of the
6 state in the fiscal year the rate is adjusted.

7 (e) If a rate is adjusted pursuant to subparagraph division
8 (c), the director of revenue shall cause an advisory notice
9 containing the new individual income tax rate to be published
10 in the Iowa administrative bulletin and on the internet site
11 of the department of revenue. The calculation and publication
12 of the adjusted tax rate by the director of revenue is exempt
13 from chapter 17A, and shall be submitted for publication by the
14 first December 31 following the determination date to adjust
15 the rate.

16 DIVISION II

17 FUTURE CORPORATE INCOME TAX RATE CHANGES

18 Sec. 6. Section 422.33, subsection 1, paragraph b,
19 subparagraph (1), subparagraph division (b), Code 2023, is
20 amended to read as follows:

21 (b) By November 1, 2022, and by November 1 each year
22 thereafter, the department of management shall determine
23 the net corporate income tax receipts for the fiscal year
24 preceding the determination date. If net corporate income
25 tax receipts for the preceding fiscal year exceed ~~seven~~ six
26 hundred eighty million dollars, the department of revenue shall
27 adjust and apply new corporate income tax rates as provided in
28 subparagraph (2).

29 Sec. 7. Section 422.33, subsection 1, paragraph b,
30 subparagraph (2), subparagraph division (a), Code 2023, is
31 amended to read as follows:

32 (a) If a determination has been made that net corporate
33 income tax receipts for the preceding fiscal year exceeded
34 ~~seven~~ six hundred eighty million dollars, the department of
35 revenue shall adjust the tax rates specified in paragraph "a",

1 subparagraphs (3) and (4), and apply the adjusted rates for tax
2 years beginning on or after the next January 1 following the
3 determination date.

4 Sec. 8. Section 422.33, subsection 1, paragraph b,
5 subparagraph (2), subparagraph division (b), subparagraph
6 subdivision (i), Code 2023, is amended to read as follows:

7 (i) The tax rates subject to adjustment shall be adjusted
8 in such a way that when combined with all the other rates
9 specified in paragraph "a", the tax rates would have generated
10 net corporate income tax receipts that equal ~~seven~~ six hundred
11 eighty million dollars in the preceding fiscal year.

12 Sec. 9. Section 422.33, subsection 1, paragraph b,
13 subparagraph (2), subparagraph division (b), subparagraph
14 subdivision (iii), Code 2023, is amended to read as follows:

15 (iii) The tax rates adjusted pursuant to this paragraph
16 shall not be adjusted below ~~five and one-half~~ four and
17 three-fourths percent.

18 Sec. 10. 2022 Iowa Acts, chapter 1002, sections 57 and 58,
19 are amended to read as follows:

20 SEC. 57. [Section 422.33, subsection 1](#), Code 2022, is amended
21 by striking the subsection and inserting in lieu thereof the
22 following:

23 1. A tax is imposed annually upon each corporation doing
24 business in this state, or deriving income from sources within
25 this state, in an amount computed by applying the rate of ~~five~~
26 ~~and one-half~~ four and three-fourths percent to the net income
27 received by the corporation during the income year.

28 SEC. 58. CONTINGENT EFFECTIVE DATE. This division of
29 this Act takes effect on the first January 1 after each rate
30 of taxation on the net income received by a corporation is
31 equalized to equal ~~five and one-half~~ four and three-fourths
32 percent pursuant to [section 422.33, subsection 1](#), paragraph
33 "b", as amended by this Act. The director of revenue shall
34 inform the Code editor upon the occurrence of this contingency.

35

DIVISION III

INSURANCE PREMIUM TAX

1
2 Sec. 11. Section 432.1, subsection 2, Code 2023, is amended
3 to read as follows:

4 2. The "applicable percent" for purposes of subsection 1 of
5 this section and section 432.2 is the following:

6 a. For calendar years beginning before the 2003 calendar
7 year, two percent.

8 b. For the 2003 calendar year, one and three-fourths
9 percent.

10 c. For the 2004 calendar year, one and one-half percent.

11 d. For the 2005 calendar year, one and one-fourth percent.

12 e. For the 2006 and ~~subsequent~~ calendar years year through
13 the 2024 calendar year, one percent.

14 f. For the 2025 calendar year, ninety-five hundredths of one
15 percent.

16 g. For the 2026 and subsequent calendar years, nine-tenths
17 of one percent.

18 Sec. 12. Section 432.1, subsection 4, Code 2023, is amended
19 to read as follows:

20 4. The "applicable percent" for purposes of subsection 3 is
21 the following:

22 a. For calendar years beginning before the 2004 calendar
23 year, two percent.

24 b. For the 2004 calendar year, one and three-fourths
25 percent.

26 c. For the 2005 calendar year, one and one-half percent.

27 d. For the 2006 calendar year, one and one-fourth percent.

28 e. For the 2007 and ~~subsequent~~ calendar years year through
29 the 2024 calendar year, one percent.

30 f. For the 2025 calendar year, ninety-five hundredths of one
31 percent.

32 g. For the 2026 and subsequent calendar years, nine-tenths
33 of one percent.

34 DIVISION IV

35 INDIVIDUAL INCOME TAX ELIMINATION FUND

1 Sec. 13. Section 8.54, subsection 5, paragraph b, Code 2023,
2 is amended to read as follows:

3 **b.** For fiscal years in which it is anticipated that moneys
4 will be transferred from the ~~taxpayer relief~~ individual
5 income tax elimination fund to the general fund of the state
6 in accordance with [section 8.57E, subsection 2](#), paragraph
7 "b", the original state general fund expenditure limitation
8 amount provided for in [subsection 3](#) shall be readjusted to
9 include the amount of moneys anticipated to be so transferred.
10 This paragraph is repealed on the date that section 8.57E,
11 subsection 2, paragraph "b", is repealed.

12 Sec. 14. Section 8.55, subsection 2, paragraph a, Code 2023,
13 is amended to read as follows:

14 **a.** The difference between the actual net revenue for the
15 general fund of the state for the fiscal year and the adjusted
16 revenue estimate for the fiscal year shall be transferred to
17 the ~~taxpayer relief~~ individual income tax elimination fund
18 created in [section 8.57E](#).

19 Sec. 15. Section 8.57E, Code 2023, is amended to read as
20 follows:

21 **8.57E ~~Taxpayer relief~~ Individual income tax elimination fund.**

22 1. ~~A taxpayer relief~~ An individual income tax elimination
23 fund is created. The fund shall be separate from the general
24 fund of the state and the balance in the fund shall not be
25 considered part of the balance of the general fund of the
26 state. The moneys credited to the fund are not subject to
27 section 8.33 and shall not be transferred, used, obligated,
28 appropriated, or otherwise encumbered except as provided in
29 this section.

30 2. **a.** Except as otherwise provided in [this section](#), moneys
31 in the ~~taxpayer relief~~ individual income tax elimination fund
32 shall only be used pursuant to appropriations or transfers made
33 by the general assembly for tax relief or reductions in income
34 tax rates.

35 **b.** (1) For the fiscal year beginning July 1, 2023, and for

1 each fiscal year thereafter, if the actual net revenue for the
2 general fund of the state for the fiscal year plus the amount
3 transferred to the general fund of the state under section
4 8.55, subsection 2, paragraph "b", for the fiscal year, if
5 any, is less than one hundred three and one-half percent of
6 the actual net revenue for the general fund of the state for
7 the prior fiscal year, there is transferred from the ~~taxpayer~~
8 relief individual income tax elimination fund to the general
9 fund of the state an amount equal to the difference or the
10 remaining balance of the ~~taxpayer relief~~ individual income tax
11 elimination fund, whichever is lower, subject to subparagraph
12 (2).

13 (2) The transfer made under subparagraph (1) shall not
14 exceed an amount necessary to increase the ending balance
15 of the general fund of the state for the fiscal year to one
16 percent of the adjusted revenue estimate, as defined in section
17 8.54, for the fiscal year.

18 (3) This paragraph is repealed on the date the remaining
19 balance of the ~~taxpayer relief~~ individual income tax
20 elimination fund is transferred to the general fund of the
21 state under subparagraph (1).

22 3. a. Moneys in the ~~taxpayer relief~~ individual income tax
23 elimination fund may be used for cash flow purposes during a
24 fiscal year provided that any moneys so allocated are returned
25 to the fund by the end of that fiscal year.

26 b. Except as provided in [section 8.58](#), the ~~taxpayer relief~~
27 individual income tax elimination fund shall be considered a
28 special account for the purposes of [section 8.53](#) in determining
29 the cash position of the general fund of the state for the
30 payment of state obligations.

31 4. Notwithstanding [section 12C.7, subsection 2](#), interest or
32 earnings on moneys deposited in the ~~taxpayer relief~~ individual
33 income tax elimination fund shall be credited to the fund.

34 Sec. 16. Section 8.58, Code 2023, is amended to read as
35 follows:

1	Income over:	But not over:	Tax rate:
2	1) \$0	\$12,000	4.00%
3	2) \$12,000		4.40%
4	<u>All other filers other than married filing jointly</u>		
5	Income over:	But not over:	Tax rate:
6	1) \$0	\$6,000	4.00%
7	2) \$6,000		4.40%

8 The bill further reduces the 3.90 percent individual flat
9 income tax rate established for tax years beginning on or after
10 January 1, 2026, in 2022 Iowa Acts, chapter 1002, section 20.
11 For the tax year beginning on or after January 1, 2026, but
12 before January 1, 2027, the bill reduces the individual tax
13 rate to 3.55 percent. For the tax year beginning on or after
14 January 1, 2027, but before January 1, 2028, the bill reduces
15 the individual income tax rate to 2.95 percent. For tax years
16 beginning on or after January 1, 2028, the bill reduces the
17 individual income tax rate at 2.50 percent.

18 Currently, an alternate income tax calculation exists
19 in Code section 422.5. The alternate income tax is an
20 alternate method of calculating income tax liability in lieu
21 of the regular income tax calculation. The alternate method
22 multiplies the taxpayer's taxable income above the income tax
23 filing thresholds in Code section 422.5(2)(b) or 422.5(3)(b)
24 by the highest existing individual income tax rate until
25 the taxpayer's tax liability is equal to the tax liability
26 that would have been calculated under the regular income tax
27 calculation method, then after such point the regular income
28 tax calculation with the regular income tax rates are used.
29 The bill phases in changes to the alternate tax rate until the
30 rate is set at 3.00 percent commencing with tax years beginning
31 on or after January 1, 2028.

32 After reducing the individual income tax rate to 2.50
33 percent, the bill establishes a procedure where the individual
34 income tax rate may be adjusted commencing with tax years
35 beginning on or after January 1, 2030. The bill specifies

1 the individual income tax rate shall be adjusted each tax
2 year until the rate is zero, if sufficient funds to make
3 the adjustment are available in the individual income tax
4 elimination fund. The bill changes the name of the taxpayer
5 relief fund to the individual income tax elimination fund later
6 in the bill.

7 By November 1, 2029, and by November 1 each year thereafter,
8 the department of management shall determine the amount of
9 moneys available in the individual income tax elimination fund,
10 and the net individual income tax receipts at the close of
11 the preceding fiscal year. The department of revenue shall
12 adjust and apply a new individual income tax rate based upon
13 the amount of money available in the individual income tax
14 elimination fund. The bill specifies the department of revenue
15 shall adjust and apply a new individual income tax rate in such
16 a way that the rate would have generated an amount equal to the
17 net receipts generated from the rate in the preceding fiscal
18 year less the amount used in the calculation in the individual
19 income tax elimination fund.

20 The bill prohibits the rate from being adjusted unless the
21 rate is able to be adjusted at least one-tenth of 1 percent.
22 The rate, when adjusted, shall be rounded down to the nearest
23 one-tenth of 1 percent.

24 The bill requires the moneys in the individual income tax
25 elimination fund be transferred to the general fund of the
26 state in the fiscal year the rate is adjusted.

27 If a tax rate is adjusted, the bill requires the director
28 of revenue to cause an advisory notice containing the new
29 individual income tax rate to be published in the Iowa
30 administrative bulletin and on the internet site of the
31 department of revenue. The calculation and publication of the
32 adjusted tax rate by the director of revenue is exempt from
33 Code chapter 17A, and shall be submitted for publication by the
34 first December 31 following the determination date to adjust
35 the tax rates.

1 DIVISION II — FUTURE CORPORATE INCOME TAX RATE CHANGES.

2 Under current law, by November 1 of each year, the department
3 of management shall determine the net corporate income tax
4 receipts for the previous fiscal year, if a determination
5 has been made that net corporate income tax receipts for the
6 preceding fiscal year exceeded \$700 million, the department
7 of revenue shall reduce the corporate tax rates and apply the
8 adjusted rates for tax years beginning on or after the next
9 January 1 following such a determination, but the tax rate
10 shall not be adjusted below 5.50 percent. The bill reduces the
11 threshold amount for determining if taxes are to be reduced
12 from \$700 million net corporate income tax receipts to \$680
13 million net corporate income tax receipts, and reduces the
14 lowest possible adjusted corporate tax rate to 4.75 percent.

15 DIVISION III — INSURANCE PREMIUMS TAX. The bill reduces
16 the insurance premium tax on the gross amount of premiums
17 received by an insurance company from 1 percent to .95 percent
18 in calendar year 2025, and from .95 percent to .90 percent for
19 the 2026 calendar year and subsequent calendar years.

20 DIVISION IV — INDIVIDUAL INCOME TAX ELIMINATION FUND.

21 The bill changes the name of the taxpayer relief fund to the
22 individual income tax elimination fund.

23 The division takes effect January 1, 2026.