

Senate Study Bill 3141 - Introduced

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

A BILL FOR

1 An Act relating to state taxation by modifying future
2 individual income tax rates, creating processes for
3 reducing the individual income tax rate to zero, reducing
4 future contingent corporate income tax rates, making
5 appropriations, and including effective date, applicability,
6 and retroactive applicability provisions.
7 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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DIVISION I

CREATION OF TAXPAYER RELIEF TRUST FUND, INCOME TAX ELIMINATION
FUND AND BOARD

Section 1. Section 2.46, Code 2024, is amended by adding the following new subsection:

NEW SUBSECTION. 6. *Income tax elimination board.* Beginning on or after July 1, 2026, and each fiscal year thereafter until the individual income tax is zero, schedule a meeting to examine and discuss the actions taken by the income tax elimination board in the previous fiscal year.

Sec. 2. Section 8.54, subsection 1, paragraph b, Code 2024, is amended to read as follows:

b. "*New revenues*" means moneys which are received by the state due to increased tax rates and fees or newly created taxes and fees over and above those moneys which are received due to state taxes and fees which are in effect as of January 1 following the December state revenue estimating conference. "*New revenues*" also includes moneys received by the general fund of the state due to new transfers over and above those moneys received by the general fund of the state due to transfers which are in effect as of January 1 following the December state revenue estimating conference. The department of management shall obtain concurrence from the revenue estimating conference on the eligibility of transfers to the general fund of the state which are to be considered as new revenue in determining the state general fund expenditure limitation. However, "*new revenues*" does not include transfers to the general fund of the state from the income tax elimination fund pursuant to section 97E.4 that occur during the fiscal year immediately preceding the fiscal year for which the adjusted revenue estimate is determined.

Sec. 3. Section 8.57E, subsection 2, paragraph a, Code 2024, is amended to read as follows:

a. Except as otherwise provided in [this section](#), moneys in the taxpayer relief fund shall only be used pursuant to

1 appropriations or transfers made by the general assembly to
2 the taxpayer relief trust fund in section 97E.3 or the income
3 tax elimination fund in section 97E.4 or for tax relief or
4 reductions in income tax rates.

5 Sec. 4. Section 8.57E, Code 2024, is amended by adding the
6 following new subsection:

7 NEW SUBSECTION. 2A. a. On July 1, 2024, there is
8 transferred from the taxpayer relief fund to the income tax
9 elimination fund created in section 97E.4, one hundred million
10 dollars for administrative purposes under chapter 97E.

11 b. On January 1, 2025, there is transferred from the
12 taxpayer relief fund to the taxpayer relief trust fund created
13 in section 97E.3, two billion six hundred million dollars for
14 the purpose of producing investment returns for deposit into
15 the income tax elimination fund.

16 c. For the fiscal year beginning July 1, 2026, and each
17 fiscal year thereafter, there is transferred from the taxpayer
18 relief fund to the taxpayer relief trust fund created in
19 section 97E.3, an amount equal to twenty-five percent of the
20 moneys transferred to the taxpayer relief fund during the
21 preceding fiscal year.

22 Sec. 5. Section 12B.10, subsection 6, Code 2024, is amended
23 by adding the following new paragraphs:

24 NEW PARAGRAPH. o. Investments by the taxpayer relief trust
25 fund established in section 97E.3.

26 NEW PARAGRAPH. p. Investments by the income tax elimination
27 fund established in section 97E.4.

28 Sec. 6. Section 12B.10C, subsection 4, unnumbered paragraph
29 1, Code 2024, is amended to read as follows:

30 The following entities or funds are not subject to this
31 section:

32 Sec. 7. Section 12B.10C, subsection 4, Code 2024, is amended
33 by adding the following new paragraph:

34 NEW PARAGRAPH. 1. The taxpayer relief trust fund
35 established in section 97E.3.

1 NEW PARAGRAPH. *m.* The income tax elimination trust
2 established in section 97E.4.

3 Sec. 8. Section 97B.1, subsection 1, Code 2024, is amended
4 to read as follows:

5 1. The "Iowa Public Employees' Retirement System" is
6 established as an independent agency within the executive
7 branch of state government. The Iowa public employees'
8 retirement system shall administer the retirement system
9 established under this chapter, and beginning July 1, 2024,
10 shall administer chapter 97E.

11 Sec. 9. NEW SECTION. **97E.1 Purpose.**

12 The purpose of this chapter is to create and ensure economic
13 vitality and growth for the benefit of future generations of
14 Iowans by setting aside and protecting moneys today in order to
15 responsibly eliminate the individual income tax in the future.

16 Sec. 10. NEW SECTION. **97E.2 Definitions.**

17 For the purpose of this chapter and unless otherwise
18 required by the context:

19 1. "Board" means the income tax elimination board.

20 2. "Elimination fund" means the income tax elimination fund.

21 3. "System" means the Iowa public employees' retirement
22 system as defined in section 97B.1.

23 4. "Trust fund" means the taxpayer relief trust fund.

24 Sec. 11. NEW SECTION. **97E.3 Taxpayer relief trust fund.**

25 1. *a.* Beginning January 1, 2025, a trust fund is created,
26 separate and apart from all other public moneys or funds of
27 this state and the balance in the trust fund shall not be
28 considered part of the balance of the general fund of the
29 state.

30 *b.* Notwithstanding section 12C.7, subsection 2, interest
31 or earnings on moneys deposited in the trust fund shall be
32 credited to the fund. Notwithstanding section 8.33, moneys
33 credited to the trust fund shall not revert at the close of a
34 fiscal year.

35 2. The trust fund shall consist of all moneys collected by

1 or appropriated or transferred to the trust fund, together with
2 all interest, dividends, and rents, and shall also include all
3 securities or investment income and other assets acquired by
4 and through the use of the moneys belonging to the trust fund
5 and any other moneys that have been paid into the trust fund.

6 3. a. The system is hereby made the custodian of the trust
7 fund, and shall administer the trust fund, and shall hold and
8 disburse the trust fund in accordance with the requirements of
9 this chapter. As custodian, the system shall be authorized to
10 disburse moneys in the fund upon warrants drawn by the director
11 of the department of administrative services pursuant to the
12 order of the system.

13 b. The system shall not select any bank or other third
14 party for the purposes of investment asset safekeeping, other
15 custody, or settlement services without prior consultation with
16 and approval of the board.

17 c. The system, subject to board approval, may execute
18 contracts and agreements with investment advisors, consultants,
19 and investment management and benefit consultant firms in the
20 administration of investments of moneys in the trust fund.

21 4. a. All moneys that are appropriated or otherwise
22 transferred or deposited into the trust fund are appropriated
23 and made available to be used for transfers made to the income
24 tax elimination fund made pursuant to subsection 5.

25 b. The expenses to administer the trust fund shall be as
26 provided in section 97E.5.

27 5. Beginning July 1, 2028, and each July 1 thereafter, five
28 percent of the remaining balance of the trust fund at the close
29 of the preceding fiscal year shall be transferred to the income
30 tax elimination fund created in section 97E.4.

31 6. Moneys in the trust fund, except so much of the trust
32 fund as may be necessary to be kept on hand for the making of
33 disbursements under this chapter, shall be invested by the
34 board in any investments according to the investment policy of
35 the board, and subject to the requirements of chapters 12F,

1 12H, 12J, and 12K, and the earnings therefrom shall be credited
2 to the fund.

3 7. After the individual income tax rate is adjusted to zero
4 pursuant to section 422.5B, any moneys remaining in the fund
5 shall be transferred to the general fund of the state in the
6 same fiscal year.

7 Sec. 12. NEW SECTION. **97E.4 Income tax elimination fund.**

8 1. Commencing July 1, 2024, an income tax elimination fund
9 is created separate and apart from all other public moneys or
10 funds of this state and the balance of the elimination fund
11 shall not be considered part of the balance of the general fund
12 of the state.

13 2. *a.* The elimination fund shall consist of all moneys
14 transferred to the elimination fund pursuant to section 97E.3
15 or appropriated to or otherwise collected by the elimination
16 fund for the purpose of reducing the individual income tax to
17 zero.

18 *b.* Notwithstanding section 12C.7, subsection 2, interest or
19 earnings on moneys deposited in the income tax elimination fund
20 shall be credited to the elimination fund. Notwithstanding
21 section 8.33, moneys credited to the income tax elimination
22 fund shall not revert at the close of a fiscal year.

23 3. *a.* The system is hereby made custodian of the
24 elimination fund, and shall administer the elimination fund,
25 and shall hold and disburse the fund in accordance with the
26 requirements of this chapter. As custodian, the system shall
27 be authorized to disburse moneys in the elimination fund
28 upon warrants drawn by the director of the department of
29 administrative services pursuant to the order of the system.

30 *b.* The system shall not select any bank or other third
31 party for the purposes of investment asset safekeeping, other
32 custody, or settlement services without prior consultation with
33 and approval of the board.

34 *c.* The system, subject to board approval, may execute
35 contracts and agreements with investment advisors, consultants,

1 and investment management and benefit consultant firms in the
2 administration of investments of moneys in the elimination
3 fund.

4 4. *a.* All moneys that are appropriated or otherwise
5 transferred or deposited into the elimination fund are
6 appropriated and made available to be used for transfers to the
7 general fund as provided in section 422.5B.

8 *b.* The expenses to administer the elimination fund shall be
9 as provided in section 97E.5.

10 5. Moneys in the elimination fund, except so much of the
11 elimination fund as may be necessary to be kept on hand for the
12 making of disbursements under this section, shall be invested
13 by the board in investments authorized for the Iowa public
14 employees' retirement system in section 97B.7A, and subject to
15 the requirements of chapters 12F, 12H, 12J, and 12K, and the
16 earnings therefrom shall be credited to the fund.

17 6. After the individual income tax rate is adjusted to
18 zero pursuant to section 422.5B, any moneys remaining in the
19 elimination fund shall be transferred to the general fund of
20 the state in the same fiscal year.

21 Sec. 13. NEW SECTION. **97E.5 Expenses.**

22 1. The investment management and administrative expenses
23 for the trust fund and elimination fund shall be charged
24 against the investment income of the elimination fund.

25 2. The total expenses for investment management and
26 administration of the trust fund and elimination fund shall not
27 exceed two million dollars in the aggregate per year.

28 Sec. 14. NEW SECTION. **97E.6 Income tax elimination board.**

29 1. Beginning July 1, 2024, a board is established. The
30 duties of the board are to establish and implement policy in
31 matters relating to the investment of the trust fund and the
32 elimination fund. The board shall be the trustee of the trust
33 fund and the elimination fund.

34 2. *a.* At least annually the board shall have a public
35 meeting and review the investment policies and procedures used

1 by the board and system. Following the review and a public
2 meeting, the board shall, pursuant to the requirements of
3 section 97E.7, and in consultation with the chief investment
4 officer of the system and other relevant personnel of the
5 system, establish an investment policy and goal statement that
6 shall direct the investment activities concerning each fund.

7 *b.* The board shall review and approve, prior to the
8 execution of a contract with the system, the hiring of each
9 investment manager and investment consultant outside of state
10 government.

11 *c.* The board shall review and approve the selection of any
12 bank used by the system pursuant to this chapter.

13 3. *a.* The board shall consist of eleven members, including
14 seven voting members and four nonvoting members.

15 *b.* (1) The voting members shall be as follows:

16 (a) Four public members, appointed by the governor who
17 each have substantial experience in institutional investments,
18 institutional finance, or other business management.

19 (b) Two public members, appointed by the governor who are
20 citizens of the state.

21 (c) The director of the department of management.

22 (2) A voting member shall not hold other office or position
23 under the laws of this state, or any other state or territory
24 or of the United States.

25 *c.* The nonvoting members of the board shall be two state
26 representatives, one appointed by the speaker of the house of
27 representatives and one by the minority leader of the house,
28 and two state senators, one appointed by the majority leader of
29 the senate and one by the minority leader of the senate.

30 *d.* Four voting members of the board shall constitute a
31 quorum.

32 *e.* The four members who have substantial institutional
33 investment experience or substantial institutional financial
34 experience shall be paid actual expenses incurred as a member
35 and shall receive a per diem as specified in section 7E.6

1 for each day of service not exceeding forty days per year.
2 Legislative members shall be paid the per diem and expenses
3 specified in section 2.10, for each day of service. The per
4 diem and expenses of the legislative members shall be paid
5 from funds appropriated under section 2.12. The two remaining
6 public members and the director of the department of management
7 shall be paid actual expenses incurred as members of the board
8 and such performance as members of the board shall not affect
9 benefits such as salary, vacation accrual, or a leave of
10 absence for sickness or injury.

11 *f.* The appointive terms of the members appointed by the
12 governor are for six-year staggered terms whose initial terms
13 shall be designated by the governor beginning and ending as
14 provided in section 69.19. If there is a vacancy in the
15 membership of the board for one of the members appointed by
16 the governor, the governor has the power of appointment.
17 Gubernatorial appointees to this board are subject to
18 confirmation by the senate.

19 4. *a.* Prior to any rule or policy adopted by the board,
20 the board shall notify the fiscal committee of the legislative
21 council the content of any rule or policy by electronic means,
22 and shall provide the fiscal committee at least ten days to
23 comment on the rule or policy before adopting the rule or
24 policy.

25 *b.* Beginning on or after July 1, 2026, and each fiscal year
26 thereafter, the board shall report to the fiscal committee of
27 the legislative council including the investment decisions,
28 transfers, and any other actions taken by the board in the
29 previous fiscal year.

30 **Sec. 15. NEW SECTION. 97E.7 Investment and management of**
31 **funds — standards — immunity.**

32 1. In establishing the investment policy of the trust fund
33 and elimination fund and providing for the separate investment
34 of each fund, the system and board shall do the following:

35 *a.* Exercise the judgment and care, under the circumstances

1 then prevailing, which persons of prudence, discretion, and
2 intelligence exercise in the management of their own affairs,
3 not for the purpose of speculation, but with regard to the
4 permanent disposition of the funds, considering the probable
5 income, as well as the probable safety, of their capital.

6 *b.* Give appropriate consideration to those facts and
7 circumstances that the system and board know or should know
8 are relevant to the particular investment or investment policy
9 involved, including the role the investment plays in the total
10 value of each fund.

11 *c.* For the purposes of this subsection, appropriate
12 consideration includes a determination that the particular
13 investment or investment policy is reasonably designed to
14 further the purposes of each fund, taking into consideration
15 the risk of loss and the opportunity for gain or income
16 associated with the investment or investment policy and
17 consideration of the following factors as they relate to each
18 fund:

19 (1) The composition of the fund with regard to
20 diversification.

21 (2) The liquidity and current return of the investments in
22 the fund relative to the anticipated cash flow requirements of
23 the fund.

24 (3) The projected return of the investments relative to the
25 funding objectives of the fund.

26 2. Within the limitations of the investment standards
27 prescribed in this section, the system may acquire and retain
28 every kind of property and every kind of investment which
29 persons of prudence, discretion, and intelligence acquire or
30 retain for their own account. Consistent with this section,
31 investments shall be made in a manner that will enhance
32 the economy of this state, and in particular, will result
33 in increased employment of the residents of this state.
34 Investments of moneys in each fund are not subject to sections
35 73.15 through 73.21.

1 3. Except as provided in subsection 6, if there is loss
2 to either fund, the system, the employees of the system,
3 the members of the board severally, and the board are not
4 personally liable, and the loss shall be charged against the
5 appropriate fund. There is appropriated from the appropriate
6 fund the amount required to cover a loss.

7 4. In managing the investment of either fund, the system, in
8 accordance with the investment policy established by the board,
9 is authorized to do the following:

10 a. To sell any securities or other property in either
11 fund and reinvest the proceeds when such action may be deemed
12 advisable by the system for the protection of the applicable
13 fund or the preservation of the value of the investment.

14 Such sale of securities or other property of either fund and
15 reinvestment shall only be made in accordance with policies
16 of the board in the manner and to the extent provided in this
17 chapter.

18 b. To subscribe for the purchase of securities for future
19 delivery in anticipation of future income. The securities
20 shall be paid for by anticipated income or from funds from the
21 sale of securities or other property held by the applicable
22 fund.

23 c. To pay for securities directed to be purchased upon
24 the receipt of the purchasing bank's paid statement or paid
25 confirmation of purchase.

26 5. In the administration of the investment of moneys in
27 each fund, employees of the system and members of the board
28 may travel outside the state for the purpose of meeting with
29 investment firms and consultants and attending conferences and
30 meetings to fulfill their fiduciary responsibilities.

31 6. The system, employees of the system, the board, the
32 members of the board, and the treasurer of state are not
33 personally liable for actions or omissions under this chapter
34 that do not involve malicious or wanton misconduct even if
35 those actions or omissions violate the standards established in

1 this section.

2 Sec. 16. NEW SECTION. **422.5B Reduction of individual income**
3 **tax rates.**

4 1. For tax years beginning on or after January 1, 2029,
5 and notwithstanding the individual income tax rate in section
6 422.5, the department of revenue shall determine the individual
7 income tax rate as provided in this section. The tax rate
8 in effect in section 422.5 shall remain in effect until the
9 rate is adjusted pursuant to subsection 2. A rate adjusted in
10 subsection 2 shall remain in effect until the rate is adjusted
11 again pursuant to this section.

12 2. *a.* Before November 1, 2028, and before November 1
13 each year thereafter, until the individual income tax rate is
14 adjusted to zero, the department of management shall determine
15 the amount of money available in the income tax elimination
16 fund in section 97E.4, and the net individual income tax
17 receipts at the close of the preceding fiscal year. The amount
18 available in the income tax elimination fund and the net tax
19 receipts shall be provided to the department of revenue for the
20 calculation in paragraph "b".

21 *b.* By November 1, 2028, and by November 1 each year
22 thereafter, the department of revenue shall adjust the
23 individual income tax rate as provided in this paragraph if all
24 of the following apply:

25 (1) The amount of net sales and use tax revenue collected by
26 the state during the most recent October 1 through September 30
27 calculation period is greater than one hundred three percent
28 of the net sales and use tax revenue collected during the
29 immediately preceding calculation period covering the same
30 months.

31 (2) The rate is able to be adjusted downward at least
32 one-tenth of one percent in such a way that the proposed
33 adjusted rate would have generated an amount equal to the net
34 individual income tax receipts generated from the rate in the
35 preceding fiscal year less any transfer amount from the income

1 tax elimination fund in section 97E.4.

2 (3) There is at least one hundred fifty percent of the
3 amount to be transferred to the general fund pursuant to
4 subsection 3 available in the income tax elimination fund in
5 section 97E.4.

6 c. If a determination is made by the department of revenue
7 that the rate is subject to adjustment, the department of
8 revenue shall adjust the rate specified in section 422.5, or if
9 the rate has been previously adjusted, adjust the previously
10 adjusted rate.

11 3. If an adjustment is made pursuant to subsection 2, one
12 hundred fifty percent of the amount of moneys in the income tax
13 elimination fund used in the calculation in subsection 2 shall
14 be transferred to the general fund of the state in the fiscal
15 year the rate is adjusted.

16 4. If a rate is adjusted pursuant to subsection 2, the
17 director of revenue shall cause an advisory notice containing
18 the new individual income tax rate to be published in the
19 Iowa administrative bulletin and on the internet site of the
20 department of revenue. The calculation and publication of the
21 adjusted tax rate by the director of revenue is exempt from
22 chapter 17A, and shall be submitted for publication by the
23 first December 31 following the determination date to adjust
24 the rate.

25 DIVISION II

26 INDIVIDUAL INCOME TAX RATES

27 Sec. 17. Section 421.27, subsection 9, paragraph a,
28 subparagraph (3), Code 2024, is amended to read as follows:

29 (3) In the case of all other entities, including
30 corporations described in [section 422.36, subsection 5](#), and all
31 other entities required to file an information return under
32 [section 422.15, subsection 2](#), the entity's Iowa net income
33 after the application of the Iowa business activity ratio, if
34 applicable, multiplied by the top income tax rate imposed under
35 [section 422.5 or 422.5A, as applicable](#), for the tax year, less

1 any Iowa tax credits available to the entity.

2 Sec. 18. Section 422.5, subsection 1, paragraph a, Code
3 2024, is amended to read as follows:

4 a. (1) A tax is imposed upon every resident and nonresident
5 of the state which tax shall be levied, collected, and paid
6 annually upon and with respect to the entire taxable income
7 as defined in this subchapter at rates as provided in section
8 422.5A. This subparagraph is repealed January 1, 2026.

9 (2) Commencing with tax years beginning on or after January
10 1, 2026, but before January 1, 2027, a tax is imposed upon
11 every resident and nonresident of the state which tax shall
12 be levied, collected, and paid annually upon and with respect
13 to the entire taxable income as defined in this subchapter at
14 a rate of three and seven hundred seventy-five thousandths
15 percent.

16 (3) Commencing with tax years beginning on or after January
17 1, 2027, a tax is imposed upon every resident and nonresident
18 of the state which tax shall be levied, collected, and paid
19 annually upon and with respect to the entire taxable income as
20 defined in this subchapter at a rate of three and sixty-five
21 hundredths percent.

22 Sec. 19. Section 422.5A, subsection 1, paragraph a,
23 subparagraphs (2) and (3), Code 2024, are amended to read as
24 follows:

25 (2) For the tax year beginning on or after January 1, 2024,
26 but before January 1, 2025:

27 (a) On taxable income from 0 through ~~\$12,000~~ \$12,420, the
28 rate of ~~4.40~~ 3.90 percent.

29 (b) On taxable income exceeding ~~\$12,000~~ \$12,420 but not
30 exceeding ~~\$60,000~~ \$62,100, the rate of 4.82 percent.

31 (c) On taxable income exceeding ~~\$60,000~~ \$62,100, the rate of
32 5.70 percent.

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

35 (a) On taxable income from 0 through ~~\$12,000~~ \$25,000, the

1 rate of ~~4.40~~ 3.90 percent.

2 (b) On taxable income exceeding ~~\$12,000~~ \$25,000, the rate of
3 4.82 percent.

4 Sec. 20. Section 422.5A, subsection 1, paragraph b,
5 subparagraphs (2) and (3), Code 2024, are amended to read as
6 follows:

7 (2) For the tax year beginning on or after January 1, 2024,
8 but before January 1, 2025:

9 (a) On taxable income from 0 through ~~\$6,000~~ \$6,210, the rate
10 of ~~4.40~~ 3.90 percent.

11 (b) On taxable income exceeding ~~\$6,000~~ \$6,120 but not
12 exceeding ~~\$30,000~~ \$31,050, the rate of 4.82 percent.

13 (c) On taxable income exceeding ~~\$30,000~~ \$31,050, the rate of
14 5.70 percent.

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

17 (a) On taxable income from 0 through ~~\$6,000~~ \$12,500, the
18 rate of ~~4.40~~ 3.90 percent.

19 (b) On taxable income exceeding ~~\$6,000~~ \$12,500, the rate of
20 4.82 percent.

21 Sec. 21. Section 422.16, subsection 2, paragraph e, Code
22 2024, is amended to read as follows:

23 e. For the purposes of [this subsection](#), state income tax
24 shall be withheld at the highest rate described in section
25 422.5 or 422.5A, as applicable, from supplemental wages of an
26 employee in those circumstances in which the employer treats
27 the supplemental wages as wholly separate from regular wages
28 for purposes of withholding and federal income tax is withheld
29 from the supplemental wages under section 3402(g) of the
30 Internal Revenue Code.

31 Sec. 22. Section 422.16B, subsection 2, paragraph a, Code
32 2024, is amended to read as follows:

33 a. (1) A pass-through entity shall file a composite return
34 on behalf of all nonresident members and shall report and pay
35 the income or franchise tax imposed under [this chapter](#) at the

1 maximum state income or franchise tax rate applicable to the
2 member under section 422.5, 422.5A, 422.33, or 422.63 on the
3 nonresident members' distributive shares of the income from the
4 pass-through entity.

5 (2) The tax rate applicable to a tiered pass-through entity
6 shall be the maximum state income tax rate under section 422.5
7 or 422.5A, as applicable.

8 Sec. 23. Section 422.16C, subsection 4, paragraph a, Code
9 2024, is amended to read as follows:

10 a. A taxpayer making an election under this section shall
11 be subject to tax in an amount equal to the maximum rate under
12 section 422.5 or 422.5A, as applicable, imposed against the
13 taxable income of the taxpayer for the taxable year properly
14 determined under this chapter and allocated and apportioned to
15 the state under the rules adopted by the department. The tax
16 shall be due with the taxpayer's return required under this
17 chapter.

18 Sec. 24. Section 422.25A, subsection 5, paragraph c,
19 subparagraphs (3), (4), and (5), Code 2024, are amended to read
20 as follows:

21 (3) Determine the total distributive share of all final
22 federal partnership adjustments and positive reallocation
23 adjustments as modified by this title that are reported to
24 nonresident individual partners and nonresident fiduciary
25 partners and allocate and apportion such adjustments as
26 provided in section 422.33 at the partnership or tiered
27 partner level, and multiply the resulting amount by the maximum
28 individual income tax rate pursuant to section 422.5 or 422.5A,
29 as applicable, for the reviewed year.

30 (4) For the total distributive share of all final federal
31 partnership adjustments and positive reallocation adjustments
32 as modified by this title that are reported to tiered partners:

33 (a) Determine the amount of such adjustments which are of a
34 type that would be subject to sourcing to Iowa under section
35 422.8, subsection 2, paragraph "a", as a nonresident, and then

1 determine the portion of this amount that would be sourced to
2 Iowa under those provisions as if the tiered partner were a
3 nonresident.

4 (b) Determine the amount of such adjustments which are of
5 a type that would not be subject to sourcing to Iowa under
6 section 422.8, subsection 2, paragraph "a", as a nonresident.

7 (c) Determine the portion of the amount in subparagraph
8 division (b) that can be established, as prescribed by the
9 department by rule, to be properly allocable to indirect
10 partners that are nonresident partners or other partners not
11 subject to tax on the adjustments.

12 (d) Multiply the total of the amounts determined in
13 subparagraph divisions (a) and (b), reduced by any amount
14 determined in subparagraph division (c), by the highest
15 individual income tax rate pursuant to section 422.5 or 422.5A,
16 as applicable, for the reviewed year.

17 (5) For the total distributive share of all final federal
18 partnership adjustments and positive reallocation adjustments
19 as modified by [this title](#) that are reported to resident
20 individual partners and resident fiduciary partners, multiply
21 that amount by the highest individual income tax rate pursuant
22 to section 422.5 or 422.5A, as applicable, for the reviewed
23 year.

24 Sec. 25. REPEAL. 2022 Iowa Acts, chapter 1002, sections 19,
25 20, 21, 22, 23, and 24, are repealed.

26 Sec. 26. RETROACTIVE APPLICABILITY. The following apply
27 retroactively to January 1, 2024, for tax years beginning on
28 or after that date:

29 1. The portion of the section of this division of this
30 Act amending section 422.5A, subsection 1, paragraph "a",
31 subparagraph (2).

32 2. The portion of the section of this division of this
33 Act amending section 422.5A, subsection 1, paragraph "b",
34 subparagraph (2).

35

DIVISION III

FUTURE CONTINGENT CORPORATE INCOME TAX RATE

1 Sec. 27. Section 422.33, subsection 1, paragraph b,
2 subparagraph (2), subparagraph division (b), subparagraph
3 subdivision (iii), Code 2024, is amended to read as follows:
4 (iii) The tax rates adjusted pursuant to this paragraph
5 shall not be adjusted below ~~five and one-half~~ four and
6 nine-tenths percent.
7

DIVISION IV

FUTURE CODE EDITING OF INTERNAL REFERENCES

8 Sec. 28. Section 421.27, subsection 9, paragraph a,
9 subparagraph (3), as amended by this Act, is amended to read
10 as follows:
11

12 (3) In the case of all other entities, including
13 corporations described in [section 422.36, subsection 5](#), and all
14 other entities required to file an information return under
15 section 422.15, subsection 2, the entity's Iowa net income
16 after the application of the Iowa business activity ratio, if
17 applicable, multiplied by the top income tax rate imposed under
18 section 422.5 ~~or 422.5A, as applicable~~, for the tax year, less
19 any Iowa tax credits available to the entity.
20

21 Sec. 29. Section 422.5, subsection 1, paragraph a, as
22 amended by this Act, is amended to read as follows:

23 ~~a. (1) A tax is imposed upon every resident and nonresident~~
24 ~~of the state which tax shall be levied, collected, and paid~~
25 ~~annually upon and with respect to the entire taxable income~~
26 ~~as defined in [this subchapter](#) at rates as provided in section~~
27 ~~422.5A. This subparagraph is repealed January 1, 2026.~~

28 ~~(2)~~ (1) Commencing with tax years beginning on or after
29 January 1, 2026, but before January 1, 2027, a tax is imposed
30 upon every resident and nonresident of the state which tax
31 shall be levied, collected, and paid annually upon and with
32 respect to the entire taxable income as defined in this
33 subchapter at a rate of three and seven hundred seventy-five
34 thousandths percent.

35 ~~(3)~~ (2) Commencing with tax years beginning on or after

1 January 1, 2027, a tax is imposed upon every resident and
2 nonresident of the state which tax shall be levied, collected,
3 and paid annually upon and with respect to the entire taxable
4 income as defined in this subchapter at a rate of three and
5 sixty-five hundredths percent.

6 Sec. 30. Section 422.16, subsection 2, paragraph e, as
7 amended by this Act, is amended to read as follows:

8 e. For the purposes of **this subsection**, state income tax
9 shall be withheld at the ~~highest~~ applicable rate described in
10 section 422.5 ~~or 422.5A, as applicable,~~ from supplemental wages
11 of an employee in those circumstances in which the employer
12 treats the supplemental wages as wholly separate from regular
13 wages for purposes of withholding and federal income tax is
14 withheld from the supplemental wages under section 3402(g) of
15 the Internal Revenue Code.

16 Sec. 31. Section 422.16B, subsection 2, paragraph a, as
17 amended by this Act, is amended to read as follows:

18 a. (1) A pass-through entity shall file a composite return
19 on behalf of all nonresident members and shall report and pay
20 the income or franchise tax imposed under **this chapter** at the
21 ~~maximum~~ state income or franchise tax rate applicable to the
22 member under section 422.5, ~~422.5A,~~ **422.33**, or **422.63** on the
23 nonresident members' distributive shares of the income from the
24 pass-through entity.

25 (2) The tax rate applicable to a tiered pass-through entity
26 shall be the ~~maximum~~ state income tax rate applicable under
27 section 422.5 ~~or 422.5A, as applicable.~~

28 Sec. 32. Section 422.16C, subsection 4, paragraph a, as
29 amended by this Act, is amended to read as follows:

30 a. A taxpayer making an election under **this section** shall
31 be subject to tax in an amount equal to the ~~maximum~~ applicable
32 rate under section 422.5 ~~or 422.5A, as applicable,~~ imposed
33 against the taxable income of the taxpayer for the taxable
34 year properly determined under **this chapter** and allocated
35 and apportioned to the state under the rules adopted by the

1 department. The tax shall be due with the taxpayer's return
2 required under [this chapter](#).

3 Sec. 33. Section 422.25A, subsection 5, paragraph c,
4 subparagraphs (3), (4), and (5), as amended by this Act, are
5 amended to read as follows:

6 (3) Determine the total distributive share of all final
7 federal partnership adjustments and positive reallocation
8 adjustments as modified by [this title](#) that are reported to
9 nonresident individual partners and nonresident fiduciary
10 partners and allocate and apportion such adjustments as
11 provided in [section 422.33](#) at the partnership or tiered partner
12 level, and multiply the resulting amount by the ~~maximum~~ highest
13 individual income tax rate ~~pursuant to section 422.5 or 422.5A,~~
14 ~~as applicable,~~ for the reviewed year.

15 (4) For the total distributive share of all final federal
16 partnership adjustments and positive reallocation adjustments
17 as modified by [this title](#) that are reported to tiered partners:

18 (a) Determine the amount of such adjustments which are of a
19 type that would be subject to sourcing to Iowa under section
20 422.8, subsection 2, paragraph "a", as a nonresident, and then
21 determine the portion of this amount that would be sourced to
22 Iowa under those provisions as if the tiered partner were a
23 nonresident.

24 (b) Determine the amount of such adjustments which are of
25 a type that would not be subject to sourcing to Iowa under
26 section 422.8, subsection 2, paragraph "a", as a nonresident.

27 (c) Determine the portion of the amount in subparagraph
28 division (b) that can be established, as prescribed by the
29 department by rule, to be properly allocable to indirect
30 partners that are nonresident partners or other partners not
31 subject to tax on the adjustments.

32 (d) Multiply the total of the amounts determined in
33 subparagraph divisions (a) and (b), reduced by any amount
34 determined in subparagraph division (c), by the highest
35 individual income tax rate ~~pursuant to section 422.5 or 422.5A,~~

1 ~~as applicable,~~ for the reviewed year.

2 (5) For the total distributive share of all final federal
3 partnership adjustments and positive reallocation adjustments
4 as modified by **this title** that are reported to resident
5 individual partners and resident fiduciary partners, multiply
6 that amount by the highest individual income tax rate ~~pursuant~~
7 ~~to section 422.5 or 422.5A, as applicable,~~ for the reviewed
8 year.

9 Sec. 34. EFFECTIVE DATE. This division of this Act takes
10 effect January 1, 2026.

11 Sec. 35. APPLICABILITY. This division of this Act applies
12 to tax years beginning on or after January 1, 2026.

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 state taxation by modifying future
17 individual income tax rates, creating processes for reducing
18 individual income tax rates to zero, and reducing future
19 contingent corporate income tax rates.

20 DIVISION I — CREATION OF TAXPAYER RELIEF TRUST FUND,
21 INCOME TAX ELIMINATION FUND, AND BOARD. The bill creates the
22 taxpayer relief trust fund (trust fund) and the income tax
23 elimination fund (ITEF) for the purpose of reducing future
24 individual income tax rates to zero. Under the bill, moneys
25 are transferred through both funds before being used to fund
26 the reduction of individual income tax rates.

27 TRANSFERS FROM TAXPAYER RELIEF FUND. On July 1, 2024, the
28 bill transfers \$100 million from the taxpayer relief fund (TRF)
29 to the ITEF.

30 On January 1, 2025, the bill transfers \$2.6 billion from
31 the TRF to the trust fund. For FY 2027, and each fiscal year
32 thereafter, the bill transfers from TRF to the trust fund, an
33 amount equal to 25 percent of moneys transferred into the TRF
34 each fiscal year.

35 TRUST FUND. The trust fund is created beginning January

1 1, 2025, separate and apart from all other public moneys or
2 funds of this state and the balance in the trust fund shall not
3 be considered part of the balance of the general fund of the
4 state.

5 The trust fund shall consist of all moneys collected by or
6 appropriated or transferred to the trust fund including all
7 interest, dividends, and rents, and shall also include all
8 securities or investment income and other assets acquired by
9 the use of the moneys in the trust fund and any other moneys
10 that have been transferred or paid into the fund.

11 The trust fund shall be administered by the Iowa public
12 employees' retirement system (IPERS).

13 Beginning July 1, 2028, and each July 1 thereafter, the bill
14 transfers 5 percent of the remaining balance of the trust fund
15 at the close of the preceding fiscal year into the ITEF.

16 After the individual income tax rate is adjusted to zero,
17 the bill requires any moneys remaining in the trust fund to be
18 transferred to the general fund of the state in the fiscal year
19 the rate is adjusted to zero.

20 ITEF. The bill establishes the ITEF on July 1, 2024. The
21 ITEF shall consist of all moneys transferred to the fund from
22 the trust fund or appropriated to or otherwise collected by
23 ITEF for the purpose of reducing the individual income tax rate
24 to zero.

25 The ITEF shall also be administered by IPERS. The moneys
26 in the ITEF are deposited into the general fund of the state
27 when individual income tax rates are adjusted pursuant to the
28 procedures in new Code section 422.5B in the bill.

29 After the rate is adjusted to zero, the bill requires any
30 moneys remaining in the ITEF to be transferred to the general
31 fund of the state in the fiscal year the rates are adjusted to
32 zero.

33 EXPENSES. The investment management and administrative
34 expenses for the trust fund and fund shall be charged against
35 the investment income of the fund. The bill limits the total

1 investment management and administrative expenses of the trust
2 fund and ITEF to \$2 million in the aggregate per year.

3 BOARD. After July 1, 2024, the bill creates a board to
4 establish policy and to review implementation of the policy, in
5 matters relating to the investment of the trust fund and the
6 ITEF. The bill establishes the board as trustee of both funds.

7 The bill allows the board to review and approve, prior to
8 the execution of a contract with the system, the hiring of each
9 investment manager and investment consultant outside of state
10 government.

11 The bill allows the board to review and approve the selection
12 of any bank used by IPERS for each fund.

13 The bill requires the board to report to the fiscal committee
14 of the legislative council.

15 The board shall consist of 11 members, including 7 voting
16 members and 4 nonvoting members.

17 The voting members shall be as follows: four public members,
18 appointed by the governor who each have substantial experience
19 in institutional investment, institutional finance, or business
20 management; two public members, appointed by the governor who
21 are citizens of the state; and the director of the department
22 of management.

23 The nonvoting members of the board shall be two state
24 representatives, one appointed by the speaker of the house of
25 representatives and one by the minority leader of the house,
26 and two state senators, one appointed by the majority leader of
27 the senate and one by the minority leader of the senate.

28 IPERS. The bill requires IPERS and the board to develop
29 separate investment policies for each fund. IPERS and the
30 board have broader authority to establish the investment policy
31 for the trust fund than the investment policy for ITEF. The
32 investment policy for the ITEF shall be similar to the Iowa
33 public employees' retirement system in Code chapter 97B. In
34 developing the investment policy for either fund, the bill
35 requires IPERS and the board to exercise judgment and care that

1 requires prudence, discretion, probable income, and probable
2 safety, as if investing personal funds. The board is required
3 to give appropriate consideration to investments that are
4 reasonably designed to further the purposes of each fund,
5 taking into consideration the risk of loss and the opportunity
6 for gain or income associated with the investment or investment
7 policy.

8 The bill allows each fund to acquire and retain every kind
9 of property and every kind of investment which persons of
10 prudence, discretion, and intelligence acquire or retain for a
11 personal account.

12 The bill specifies if there is loss to either fund, IPERS,
13 the employees of IPERS, the members of the board severally,
14 and the board are not personally liable, and the loss shall be
15 charged against the trust fund or fund, as applicable, unless
16 the conduct involves malicious or wanton misconduct.

17 IPERS, in accordance with the investment policy established
18 by the board, is authorized under the bill to sell any
19 securities or other property in the trust fund and reinvest the
20 proceeds when such action may be deemed advisable by IPERS for
21 the protection of the fund or the preservation of the value of
22 the investment.

23 The bill allows IPERS, subject to board approval, to
24 execute contracts and agreements with investment advisors and
25 consultants in the administration of investments of moneys in
26 either fund.

27 ADJUSTING INDIVIDUAL INCOME TAX RATE. By November 1, 2028,
28 and by November 1 each year thereafter, the department of
29 management shall determine the amount of moneys available in
30 the ITEF, and the net individual income tax receipts at the
31 close of the preceding fiscal year. The amount available in
32 the ITEF and the net tax receipts shall be provided to the
33 department of revenue for the calculation to determine if
34 the individual income tax rates may be adjusted. The bill
35 specifies the department of revenue shall adjust and apply a

1 new individual income tax rate in such a way that the rate
2 would have generated an amount equal to the net receipts
3 generated from the rate in the preceding fiscal year less the
4 amount transferred from the ITEF.

5 The bill prohibits the rate from being adjusted unless
6 the amount of net sales and use tax revenue collected by the
7 state during the most recent October 1 through September 30
8 calculation period is greater than 103 percent of the net sales
9 and use tax revenue collected during the preceding calculation
10 period covering the same months.

11 The bill prohibits the rate from being adjusted unless the
12 rate is able to be adjusted at least one-tenth of 1 percent.
13 The rate, when adjusted, shall be rounded down to the nearest
14 one-tenth of 1 percent.

15 The bill prohibits the rate from being adjusted unless
16 at least 150 percent of the amount to be transferred to the
17 general fund of the state is available in the ITEF.

18 The bill requires the moneys in the ITEF be transferred to
19 the general fund of the state in the fiscal year the rate is
20 adjusted. The bill specifies the transfer from the ITEF to the
21 general fund of the state shall not be considered "new revenue"
22 for purposes of the general fund expenditure limitation in Code
23 section 8.54.

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

33 DIVISION II — INDIVIDUAL INCOME TAX RATES. The bill changes
34 some of the individual income tax brackets and individual
35 income tax rates for the tax year beginning January 1, 2024,

1 but before January 1, 2025, and for the tax year beginning
2 January 1, 2025, but before January 1, 2026. For the tax year
3 beginning January 1, 2026, but before January 1, 2027, the bill
4 lowers the future flat individual income tax rate from 3.90
5 percent to 3.775 percent. For tax years beginning on or after
6 January 1, 2027, the bill lowers the flat individual income tax
7 rate from 3.775 percent to 3.65 percent. The flat individual
8 income tax rate of 3.65 percent is the rate that will be
9 subject to reduction by the processes established in the bill.

10 DIVISION III — FUTURE CONTINGENT CORPORATE INCOME TAX RATE.

11 Under current law, a process exists by which corporate income
12 tax rates may be lowered if net corporate income tax receipts
13 for the preceding fiscal year exceed \$700 million. Current
14 law prohibits the corporate rate from being adjusted below 5.5
15 percent. The bill strikes the 5.5 percent corporate tax rate
16 minimum, and provides that the corporate tax rate minimum shall
17 not be adjusted below 4.90 percent.

18 DIVISION IV — FUTURE CODE EDITING OF INTERNAL REFERENCES.

19 The bill eliminates internal references to individual income
20 tax rates in Code section 422.5A due to moving the individual
21 income tax rate to Code section 422.5. The bill also
22 eliminates references to "highest", "maximum", and "top" rate
23 because the individual income tax rate becomes a flat rate
24 commencing with tax years beginning on or after January 1,
25 2026.