

House File 961 - Introduced

HOUSE FILE 961
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 94)

(COMPANION TO SF 201 BY ROWLEY)

A BILL FOR

1 An Act relating to individual income taxation by exempting
2 certain amounts received from nonqualified deferred
3 compensation plans and including retroactive applicability
4 provisions.

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

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1 Section 1. Section 422.7, Code 2025, is amended by adding the
2 following new subsection:

3 NEW SUBSECTION. 45. a. Subtract, to the extent included,
4 up to five hundred thousand dollars of a nonqualified
5 deferred compensation plan or any earnings attributable to the
6 nonqualified deferred compensation plan received by a person who
7 is any of the following:

8 (1) Disabled.

9 (2) Fifty-five years of age or older.

10 (3) The surviving spouse of an individual or a survivor
11 having an insurable interest in an individual who would have
12 qualified for the exemption under this subsection for the tax
13 year.

14 b. Married taxpayers who file separate state income tax
15 returns shall allocate their combined annual exclusion amount
16 to each spouse in the proportion that each spouse's respective
17 income received from a nonqualified deferred compensation plan
18 bears to the total combined pension or retirement pay received.

19 Sec. 2. RETROACTIVE APPLICABILITY. This Act applies
20 retroactively to January 1, 2025, for tax years beginning on or
21 after that date.

22 EXPLANATION

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

25 Under current law, a taxpayer may exclude retirement income
26 from the computation of net income for purposes of the individual
27 income tax. In order to be eligible for the retirement income
28 exclusion, a person must be disabled, at least 55 years of age,
29 or be the surviving spouse of an individual or be a survivor
30 having an insurable interest in an individual who would have
31 qualified for the retirement income exclusion.

32 This bill excludes up to \$500,000 of nonqualified deferred
33 compensation plan income from the computation of net income for
34 purposes of the individual income tax under similar circumstances
35 as the retirement income exclusion. In order to be eligible for

1 the nonqualified deferred compensation plan income exclusion, the
2 taxpayer must be disabled, at least 55 years of age, or be the
3 surviving spouse of an individual or be a survivor having an
4 insurable interest in an individual who would have qualified for
5 the income exclusion.

6 A nonqualified deferred compensation plan is deferred
7 compensation with no federal legal deferral limit that is subject
8 to tax at a later date, and is usually made available to select
9 employees.

10 The bill applies retroactively to January 1, 2025, for tax
11 years beginning on or after that date.

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