House File 988 - Introduced

HOUSE FILE 988
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 622)
(SUCCESSOR TO HSB 149)

A BILL FOR

An Act creating a catastrophic savings account and modifying individual income taxes for account holders and including applicability provisions.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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

NEW SUBSECTION. 45. *a.* Subject to the restrictions of this subsection, subtract the sum of the following amounts:

(1) The amount of contributions made by an account holder during the tax year to the account holder's catastrophic savings account under chapter 541C, not to exceed the following aggregate lifetime limits:

(a) For account holders whose annual homeowner's property and casualty insurance policy premium paid during the tax year is less than one thousand dollars, an amount not to exceed two thousand dollars.

(b) For account holders whose annual homeowner's property and casualty insurance policy premium during the tax year is equal to or exceeds one thousand dollars, an amount not to exceed the lesser of the following:

(i) Fifteen thousand dollars.

(ii) Twice the annual homeowner's property and casualty insurance policy premium paid during the tax year.

(c) For account holders who are self-insured, or choose not to obtain a homeowner's property and casualty insurance policy, or are unable to obtain a homeowner's property and casualty insurance policy, an amount not exceeding three hundred fifty thousand dollars, or the assessed value of the home, whichever is less.

(2) To the extent included, income from interest received from the account holder's catastrophic savings account.

b. (1) The subtraction in paragraph "*a*" shall not be allowed if funds are withdrawn from an account holder's catastrophic savings account and used for purposes other than as allowed in this subsection or chapter 541C.

(2) Add, to the extent previously deducted under paragraph "*a*", the amount withdrawn during the tax year from an account holder's catastrophic savings account in excess of an authorized payment for qualified catastrophic expenses authorized in section

541C.3.

(3) If an account holder dies, the amount of money in the catastrophic savings account shall be included in the taxable income of the person who receives the account, unless that person is the surviving spouse of the account holder. Upon the death of the surviving spouse, the amount of money in the account shall be included in the taxable income of the person who receives the account. The additional tax imposed in subparagraph (5) of this paragraph does not apply to a distribution from the account upon the death of the account holder or the surviving spouse.

(4) Except for certain deaths described in subparagraph (3), if an account holder sells their homestead and does not purchase a new homestead within six months of the sale, the account holder shall include the amount of money in the catastrophic savings account as taxable income in the year the homestead is sold.

(5) For any amount considered a withdrawal required to be added to net income pursuant this paragraph, the account holder shall be assessed a penalty equal to two and one-half percent of the amount of the withdrawal in excess of an authorized payment for qualified catastrophic expenses. The penalty shall not apply to withdrawals due to the death of the account holder, or to withdrawals made pursuant to a garnishment, levy, or other order, including but not limited to an order in bankruptcy following a filing for protection under the federal bankruptcy code, 11 U.S.C. §101 et seq.

(6) For purposes of this paragraph, the transfer of amounts in order to change catastrophic savings account institutions by the account holder shall not cause such transfer to be considered a withdrawal to be added to net income pursuant this paragraph.

c. Add, to the extent deducted for federal tax purposes, interest, taxes, and other miscellaneous expenses to the extent such amounts are qualified catastrophic expenses in connection with a catastrophic loss that were paid or reimbursed from funds in the catastrophic savings account.

d. For purposes of this subsection:

(1) “*Account holder*” means the same as defined in section 541C.2, regardless of filing status.

(2) “*Catastrophic savings account*” means the same as defined in section 541C.2.

(3) “*Qualified catastrophic expense*” means the same as defined in section 541C.2.

Sec. 2. NEW SECTION. **541C.1 Short title.**

This chapter may be cited as the “*Catastrophic Savings Account Act*”.

Sec. 3. NEW SECTION. **541C.2 Definitions.**

As used in this chapter, unless the context otherwise requires:

1. “*Account holder*” means an individual who is a resident and who establishes, either individually or jointly with the individual’s spouse, a catastrophic savings account pursuant to section 541C.3.

2. “*Catastrophic event*” means windstorms, cyclones, earthquakes, ice storms, tornadoes, high winds, flood, hail and force majeure, and similar perils not normally among those covered under most property casualty insurance policies, but obtainable through the purchase of wind, wind and hail, flood, or storm or windstorm coverage, or any combination of those coverages. The term “*catastrophic event*” also includes any event for which a major disaster has been declared to exist by the president of the United States or for which the governor has proclaimed a state of disaster emergency.

3. “*Catastrophic savings account*” or “*savings account*” means an account that meets the requirements of sections 541C.3 and 541C.4 and that was established for the purpose of paying or reimbursing a designated beneficiary’s qualified catastrophic expenses.

4. “*Department*” means the department of revenue.

5. “*Designated beneficiary*” means an individual meeting the requirements of section 541C.3, subsection 2, and designated by an account holder as beneficiary of the account holder’s

catastrophic savings account pursuant to section 541C.3, subsection 2.

6. *"Financial institution"* means the same as defined in section 537.1301.

7. *"Homestead"* means the same as defined in section 425.11.

8. *"Individual"* means a natural person.

9. *"Qualified catastrophic expense"* means the payment of a homeowner's property and casualty insurance policy deductible under an insurance policy covering the account holder's homestead, if the policy covers flood, windstorm, or another catastrophic event, or the equivalent of such payments by an uninsured account holder.

10. *"Resident"* means the same as defined in section 422.4.

Sec. 4. NEW SECTION. **541C.3 Catastrophic savings account.**

1. *a.* Beginning January 1, 2026, an individual may open an interest-bearing savings account with a financial institution and designate the entire account as a catastrophic savings account for the purpose of paying qualified catastrophic expenses. The savings account designation shall be made no later than April 30 of the year following the tax year during which the account is opened, on forms provided by the department.

b. An account holder shall not establish more than one savings account.

2. *a.* The account holder shall designate one individual as beneficiary of the savings account. The designation shall be made on forms provided by the department and no later than April 30 of the year following the tax year during which the account is opened. The account holder may change the designated beneficiary of the savings account at any time.

b. The account holder and designated beneficiary of a savings account may be the same individual.

Sec. 5. NEW SECTION. **541C.4 Account administration —— account holder responsibilities.**

1. *a.* Contributions to an account may be made by any person in the form of cash. The aggregate lifetime contribution

limitations that may be made to a savings account are as follows:

(1) For account holders whose annual homeowner's property and casualty insurance policy premium paid during the tax year is less than one thousand dollars, an amount not to exceed two thousand dollars.

(2) For account holders whose annual homeowner's property and casualty insurance policy premium during the tax year is equal to or exceeds one thousand dollars, an amount not to exceed the lesser of the following:

(a) Fifteen thousand dollars.

(b) Twice the annual homeowner's property and casualty insurance policy premium paid during the tax year.

(3) For account holders who are self-insured, or choose not to obtain a homeowner's property and casualty insurance policy, or are unable to a obtain homeowner's property and casualty insurance policy, an amount not exceeding three hundred fifty thousand dollars, or the assessed value of the home, whichever is less.

b. Interest accrued in the savings account shall not be counted for purposes of calculating the aggregate lifetime contribution limitations.

c. The aggregate lifetime contribution limitations of an account holder may increase if an account holder's homeowner's property and casualty homeowner's insurance policy premium increases as provided in paragraph "*a*", but once an aggregate lifetime limitation is achieved in paragraph "*a*" the aggregate lifetime limitation is not required to decrease.

2. The account holder shall not use funds held in a savings account to pay expenses, if any, of administering the account, except that all fees and charges assessed by the financial institution may be deducted from the account by the financial institution where the account is held.

3. The account holder shall submit the following information to the department:

a. An annual report for the savings account on forms furnished by the department. The report shall be included with the Iowa income tax return of the account holder.

b. A copy of the federal internal revenue service form 1099, or other similar federal internal revenue service income reporting form, if any, issued for the savings account to the account holder by the financial institution where the account is held. The form shall be included with the Iowa income tax return of the account holder.

c. Upon a withdrawal of funds from a catastrophic savings account, a transaction report on forms furnished by the department.

4. The account holder may withdraw funds from a savings account at any time.

Sec. 6. NEW SECTION. **541C.5 Financial institution protections.**

This chapter shall not be construed to require a financial institution to do any of the following, or to be responsible or liable for any of the following:

1. Designate or label within the financial institution's account contracts, systems, or in any other manner, an account as a savings account.

2. Ascertain or verify the purpose of a withdrawal of funds from a savings account, or track the destination or use of the withdrawn funds.

3. Allocate funds in a savings account to a designated beneficiary or among joint account holders.

4. Report any information to the department or any other governmental agency.

5. Determine or ensure that an account satisfies the requirements to be a savings account.

6. Determine or ensure that funds withdrawn from a savings account are used for the payment of qualified catastrophic expenses.

7. Report or remit taxes or penalties related to the ownership or use of a savings account.

8. Include the name of a beneficiary in the title of a savings account, or document the change of any beneficiary to a savings account.

Sec. 7. NEW SECTION. **541C.6 Tax considerations.**

The state income tax treatment of a savings account shall be as provided in section 422.7, subsection 45.

Sec. 8. NEW SECTION. **541C.7 Rules and forms.**

1. The department shall adopt rules to implement and administer this chapter.

2. The department shall create and make available forms to be used in complying with this chapter, including but not limited to the following:

a. A form for designating an account as a savings account pursuant to section 541C.3, subsection 1, paragraph "*a*".

b. A form for designating an individual as beneficiary of a savings account pursuant to section 541C.3, subsection 2, paragraph "*a*".

c. A savings account annual report as required in section 541C.4, subsection 3, paragraph "*a*". The report shall require, at a minimum, a list of transactions occurring on the account during the tax year, and shall identify any supporting documentation to be included with the report or maintained by the taxpayer.

d. A transaction report as required in section 541C.4, subsection 3, paragraph "*c*", which report shall require, at a minimum, information regarding the eligible home costs to which any withdrawn funds were applied in connection with a qualified home purchase, and information regarding the amount of funds remaining, if any, in a catastrophic savings account.

Sec. 9. APPLICABILITY. This Act applies to tax years beginning on or after January 1, 2026.

EXPLANATION

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

This bill allows individuals who are residents, on or after

January 1, 2026, to open an interest-bearing savings account with a state or federally chartered bank, savings and loan association, credit union, or trust company in this state and designate the account as a catastrophic savings account (account) for the purpose of financing the payment of qualified catastrophic expenses.

"Qualified catastrophic expense" is defined in the bill to mean the payment of a homeowner's property and casualty insurance deductible under an insurance policy covering the account holder's homestead, if the policy covers flood, windstorm, or another catastrophic event, or the equivalent of such payments by an uninsured account holder. The bill further defines "catastrophic event".

The account may be established individually, or jointly with a spouse if the married couple files a joint Iowa income tax return. In order to properly establish the account, the bill requires the account holder to submit certain forms to the department of revenue (department) designating the account as a catastrophic savings account (account), and designating one beneficiary of the account (designated beneficiary). These designation forms must be submitted no later than April 30 of the year following the tax year during which the account is opened. An individual may not establish more than one account. The account holder may change the designated beneficiary at any time, and may designate himself or herself as the beneficiary.

Contributions to an account may be made in the form of cash by any person. Account funds shall not be used to pay expenses, if any, of administering the account, except that fees and charges may be deducted from the account by the financial institution where the account is held. The bill requires an account holder to submit certain reports to the department, including an annual report for the account, a transaction report upon a withdrawal of funds from the account, and a copy of any federal internal revenue service form 1099 or other similar income statement issued for the account.

The bill provides protection to financial institutions from being required to perform, and from being responsible or liable for, certain activities as described in the bill with respect to accounts. The bill requires the department to create the forms required to be filed by account holders, and to adopt rules to implement and administer the bill.

The bill provides two individual income tax incentives relating to the accounts. First, an account holder is allowed to deduct from the individual income tax up to the aggregate lifetime contribution limit amount. Second, the bill exempts from the individual income tax any interest received from the account holder's accounts. For account holders whose annual homeowner's property and casualty insurance policy (policy) premium paid during the tax year is less than $1,000, the aggregate lifetime limit shall not exceed $2,000. For an account holder whose annual policy premium during the tax year is equal to or exceeds $1,000, the aggregate lifetime limit shall not exceed the lesser of $15,000 or twice the annual policy premium. For account holders who self-insure or who are unable to obtain a policy, the aggregate lifetime limit shall not exceed the lesser of $350,000 or the assessed value of the home. The aggregate lifetime contribution limitations of an account holder may increase if an account holder's homeowner's property and casualty homeowner's insurance policy premium increases, but are not required to decrease.

The bill requires an account holder to add to net income for purposes of calculating the individual income tax any payment from the account that is not for qualified catastrophic expenses (nonqualified withdrawal), but amounts transferred between different accounts of the same account holder by a person other than the account holder are not considered nonqualified withdrawals. Nonqualified withdrawals required to be added to net income are also subject to a penalty equal to 2.5 percent of the nonqualified withdrawal, unless the withdrawal was made by reason of the death of the account holder, or was made pursuant to a garnishment, levy, or other order, including an order in bankruptcy following a filing for protection under the federal bankruptcy code. If an account holder dies, the amount of money in the account shall be included in the taxable income of the person who receives the account, unless that person is the surviving spouse of the account holder. Upon the death of the surviving spouse, the amount of money in the account shall be included in the taxable income of the person who receives the account. Upon the sale of the homestead without the purchase of a new homestead within six months of the sale, the bill also requires the amount of money in the account to be included in the taxable income of the account holder.

Finally, the bill prohibits the amount of qualified catastrophic expenses that are paid or reimbursed from funds in an account from being allowed as an itemized deduction for Iowa individual income tax purposes.

The tax provisions of the bill apply to tax years beginning on or after January 1, 2026.