

**Senate Study Bill 1239 - Introduced**

SENATE FILE \_\_\_\_\_

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

**A BILL FOR**

1 An Act relating to the elimination of the individual income tax  
2 and alternate income tax by creating the taxpayer relief trust  
3 fund and income tax elimination board and fund, and making  
4 appropriations.

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

unofficial

1 Section 1. Section 2.46, Code 2025, is amended by adding the  
2 following new subsection:

3 NEW SUBSECTION. 6. *Income tax elimination board.* Beginning  
4 on or after July 1, 2027, and each fiscal year thereafter until  
5 the individual income tax rate is zero, schedule a meeting  
6 to examine and discuss the actions taken by the income tax  
7 elimination board in the previous fiscal year.

8 Sec. 2. Section 8.54, subsection 1, paragraph b, Code 2025,  
9 is amended to read as follows:

10 b. "New revenues" means moneys which are received by the  
11 state due to increased tax rates and fees or newly created  
12 taxes and fees over and above those moneys which are received  
13 due to state taxes and fees which are in effect as of January  
14 1 following the December state revenue estimating conference.  
15 "New revenues" also includes moneys received by the general fund  
16 of the state due to new transfers over and above those moneys  
17 received by the general fund of the state due to transfers which  
18 are in effect as of January 1 following the December state  
19 revenue estimating conference. The department of management  
20 shall obtain concurrence from the revenue estimating conference  
21 on the eligibility of transfers to the general fund of the  
22 state which are to be considered as new revenue in determining  
23 the state general fund expenditure limitation. However, "new  
24 revenues" does not include transfers to the general fund of the  
25 state from the income tax elimination fund pursuant to section  
26 97E.4 that occur during the fiscal year immediately proceeding  
27 the fiscal year for which the adjusted revenue estimate is  
28 determined.

29 Sec. 3. Section 8.57E, subsection 2, paragraph a, Code 2025,  
30 is amended to read as follows:

31 a. Except as otherwise provided in this section, moneys  
32 in the taxpayer relief fund shall only be used pursuant to  
33 appropriations or transfers made by the general assembly to the  
34 taxpayer relief trust fund in section 97E.3 or the income tax  
35 elimination fund in section 97E.4 or for tax relief or reductions

1 in income tax rates.

2 Sec. 4. Section 8.57E, Code 2025, is amended by adding the  
3 following new subsection:

4 NEW SUBSECTION. 2A. a. Beginning on July 1, 2025, moneys  
5 in the taxpayer relief fund may be utilized by the Iowa public  
6 employees' retirement system in conjunction with the department  
7 of management to facilitate implementation of this subsection.  
8 On January 15, 2026, there is transferred from the taxpayer  
9 relief fund to the income tax elimination fund created in section  
10 97E.4, one hundred million dollars which shall be reserved for  
11 administrative purposes under chapter 97E, and shall not be used  
12 to reduce individual income tax rates pursuant to section 422.5B.

13 b. On January 1, 2026, there is transferred from the taxpayer  
14 relief fund to the taxpayer relief trust fund created in section  
15 97E.3, two billion six hundred million dollars for the purpose  
16 of producing investment returns for deposit into the income tax  
17 elimination fund.

18 c. For the fiscal year beginning July 1, 2027, and each  
19 fiscal year thereafter, there is transferred from the taxpayer  
20 relief fund to the taxpayer relief trust fund created in section  
21 97E.3, an amount equal to twenty-five percent of the moneys  
22 transferred to the taxpayer relief fund during the preceding  
23 fiscal year.

24 Sec. 5. Section 12B.10, subsection 6, Code 2025, is amended  
25 by adding the following new paragraphs:

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

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

30 Sec. 6. Section 12B.10C, subsection 4, unnumbered paragraph  
31 1, Code 2025, is amended to read as follows:

32 The following entities or funds are not subject to this  
33 section:

34 Sec. 7. Section 12B.10C, subsection 4, Code 2025, is amended  
35 by adding the following new paragraphs:

1 NEW PARAGRAPH. l. The taxpayer relief trust fund established  
2 in section 97E.3.

3 NEW PARAGRAPH. m. The income tax elimination trust  
4 established in section 97E.4.

5 Sec. 8. Section 97B.1, subsection 1, Code 2025, is amended to  
6 read as follows:

7 1. The "Iowa Public Employees' Retirement System" is  
8 established as an independent agency within the executive branch  
9 of state government. The Iowa public employees' retirement  
10 system shall administer the retirement system established under  
11 this chapter, and beginning July 1, 2025, shall administer  
12 chapter 97E.

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

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

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

19 For the purpose of this chapter and unless otherwise required  
20 by the context:

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

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

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

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

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

27 1. a. Beginning January 1, 2026, a trust fund is created,  
28 separate and apart from all other public moneys or funds of this  
29 state and the balance in the trust fund shall not be considered  
30 part of the balance of the general fund of the state.

31 b. Notwithstanding section 12C.7, subsection 2, interest or  
32 earnings on moneys deposited in the trust fund shall be credited  
33 to the fund. Notwithstanding section 8.33, moneys credited to  
34 the trust fund shall not revert at the close of a 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 and  
4 through the use of the moneys belonging to the trust fund and any  
5 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 an order  
12 of the system.

13 b. (1) Prior to July 1, 2027, the system may contract with  
14 any custodian bank currently being utilized for the custody of  
15 retirement fund assets in chapter 97B. When contracting with  
16 such a bank pursuant to this subparagraph, the system shall not  
17 be subject to the procurement requirements of chapter 8A. This  
18 subparagraph is repealed on January 1, 2028.

19 (2) On or after July 1, 2027, the system shall not select any  
20 bank or other third party for the purposes of investment asset  
21 safekeeping, other custody, or settlement services without prior  
22 consultation with and approval of the board.

23 (3) Any bank expenses that are incurred shall be paid as  
24 provided in section 97E.5.

25 c. The system, subject to approval or upon delegation by  
26 the board, may execute contracts and agreements with investment  
27 advisors, consultants, and investment management and benefit  
28 consultant firms in the administration of investments of moneys  
29 in the trust fund, and any other contracts and agreements  
30 necessary for the administration of the trust fund. The expenses  
31 for services specified in this paragraph shall be paid as  
32 provided in section 97E.5.

33 4. a. All moneys that are appropriated or otherwise  
34 transferred or deposited into the trust fund are appropriated and  
35 made available to be used for transfers made to the income tax

1 elimination fund made pursuant to subsection 5.

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

4     5. Beginning July 1, 2029, and each July 1 thereafter, five  
5 percent of the remaining balance of the trust fund at the close  
6 of the preceding fiscal year shall be transferred to the income  
7 tax elimination fund created in section 97E.4. The remaining  
8 balance in the trust fund shall be computed by the system and  
9 certified by the board.

10     6. Moneys in the trust fund, except so much of the trust  
11 fund as may be necessary to be kept on hand for the making  
12 of disbursements under this chapter, shall be invested by the  
13 board in any investments according to the investment policy of  
14 the board, and subject to the requirements of chapters 12F, 12H,  
15 12J, and 12K, and the earnings therefrom shall be credited to the  
16 fund.

17     7. After the individual income tax rate is adjusted to zero  
18 pursuant to section 422.5B, any moneys remaining in the fund  
19 shall be transferred to the general fund of the state in the  
20 same fiscal year, or transferred as soon as the system is able to  
21 prudently liquidate any remaining moneys, whichever is earlier.

22     Sec. 12. NEW SECTION. **97E.4 Income tax elimination fund —**  
23 **expense account.**

24     1. Commencing January 1, 2026, an income tax elimination fund  
25 is created separate and apart from all other public moneys or  
26 funds of this state and the balance of the elimination fund shall  
27 not be considered part of the balance of the general fund of the  
28 state.

29     2. a. The elimination fund shall consist of all moneys  
30 transferred to the elimination fund pursuant to sections 8.57E  
31 and 97E.3 or appropriated to or otherwise collected by the  
32 elimination fund for the purpose of reducing the individual  
33 income tax rate to zero.

34     b. Notwithstanding section 12C.7, subsection 2, interest or  
35 earnings on moneys deposited in the income tax elimination fund

1 shall be credited to the elimination fund. Notwithstanding  
2 section 8.33, moneys credited to the income tax elimination fund  
3 shall not revert at the close of a fiscal year.

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

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

15 c. The system, subject to approval or upon delegation by  
16 the board, may execute contracts and agreements with investment  
17 advisors, consultants, and investment management and benefit  
18 consultant firms in the administration of investments of moneys  
19 in the elimination fund, and any other contracts and agreements  
20 necessary for the administration of the elimination fund. The  
21 expenses for services specified in this paragraph shall be paid  
22 as provided in section 97E.5.

23 4. a. All moneys that are appropriated or otherwise  
24 transferred or deposited into the elimination fund are  
25 appropriated and made available to be used for investment,  
26 investment management, and administrative expenses, and for  
27 transfers to the general fund as provided in section 422.5B.

28 b. The expenses to administer the elimination fund shall be  
29 as provided in section 97E.5.

30 5. Moneys in the elimination fund, except so much of the  
31 elimination fund as may be necessary to be kept on hand for the  
32 making of disbursements under this section, shall be invested by  
33 the board, and subject to the requirements of chapters 12F, 12H,  
34 12J, and 12K, and the earnings therefrom shall be credited to the  
35 fund.

1 6. After one hundred million dollars is transferred to the  
2 elimination fund pursuant to section 8.57E, the one hundred  
3 million dollars shall be transferred to an expense account  
4 created within the elimination fund and shall be reserved for the  
5 purpose of paying expenses pursuant to section 97E.5.

6 7. After the individual income tax rate is adjusted to zero  
7 pursuant to section 422.5B and after all outstanding investment,  
8 investment management, and administrative expenses have been  
9 paid, any moneys remaining in the elimination fund shall be  
10 transferred to the general fund of the state in the same fiscal  
11 year.

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

13 1. Any billed investment, investment management, and  
14 administrative expenses related to the trust fund and elimination  
15 fund shall be charged first against the expense account  
16 established in section 97E.4, and if the expense account is  
17 insufficient to pay the expenses, the expenses shall be paid next  
18 from the elimination fund, and then from the trust fund.

19 2. a. The total expenses for administration of the trust  
20 fund and the elimination fund shall be computed by the system  
21 and reviewed by the board for payment to the system by September  
22 30 following each fiscal year ending on June 30 that the trust  
23 fund or elimination fund contained moneys in the preceding fiscal  
24 year. The administrative expenses shall be the higher of five  
25 million dollars or two-tenths of one percent of the combined  
26 value of the trust fund and elimination fund on June 30 each year  
27 either fund contained moneys in the preceding fiscal year.

28 b. Notwithstanding paragraph "a", if the combined value of  
29 the trust fund and elimination fund is a de minimis amount, the  
30 board shall establish the administrative fee.

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

32 1. The income tax elimination board is established. The  
33 duties of the board are to establish and implement policy in  
34 matters relating to the investment of the trust fund and the  
35 elimination fund. The board shall be the trustee of the trust

1 fund and the elimination fund. Section 4A.5 does not apply to  
2 the board.

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

11 b. The board shall review and approve the administrative  
12 expenses of the system each fiscal year.

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 or  
24 of the United States, except a member of the board may also serve  
25 on the system's investment board established in section 97B.8A.

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

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

33 e. The four members who have substantial institutional  
34 investment experience or substantial institutional financial  
35 experience shall be paid actual expenses incurred as a member and

1 shall receive a per diem as specified in section 7E.6 for each  
2 day of service not exceeding forty days per year. Legislative  
3 members shall be paid the per diem and expenses specified in  
4 section 2.10, for each day of service. The per diem and expenses  
5 of the legislative members shall be paid from funds appropriated  
6 under section 2.12. The two remaining public members and the  
7 director of the department of management shall be paid actual  
8 expenses incurred as members of the board and such performance as  
9 members of the board shall not affect benefits such as salary,  
10 vacation accrual, or a leave of 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  
14 as provided in section 69.19. If there is a vacancy  
15 in the membership of the board for one of the members  
16 appointed by the governor, the governor has the power of  
17 appointment. Gubernatorial appointees to this board are subject  
18 to confirmation by the senate.

19 4. *a.* The board shall adopt rules pursuant to chapter 17A  
20 or adopt any policies necessary to administer this chapter.  
21 Prior to any rule adopted by the board, the board shall notify  
22 the fiscal committee of the legislative council the content of  
23 any rule or policy by electronic means, and shall provide the  
24 fiscal committee at least ten days to comment on the rule before  
25 adopting the rule.

26 *b.* Beginning on or after July 1, 2027, and each fiscal  
27 year thereafter, the board shall report to the fiscal committee  
28 of the legislative council including the investment decisions,  
29 transfers, and any other actions taken by the board in the  
30 previous fiscal year.

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

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

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

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

12 c. For the purposes of this subsection, appropriate  
13 consideration includes a determination that the particular  
14 investment or investment policy is reasonably designed to further  
15 the purposes of each fund, taking into consideration the risk  
16 of loss and the opportunity for gain or income associated with  
17 the investment or investment policy and consideration of the  
18 following factors as they relate to each 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 persons  
29 of prudence, discretion, and intelligence acquire or retain for  
30 their own account. Consistent with this section, investments  
31 shall be made in a manner that will enhance the economy of this  
32 state, and in particular, will result in increased employment of  
33 the residents of this state. Investments of moneys in each fund  
34 are not subject to sections 73.15 through 73.22.

35 3. Except as provided in subsection 6, if there is loss

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

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

9 a. To sell any securities or other property in either  
10 fund and reinvest the proceeds when such action may be deemed  
11 advisable by the system for the protection of the applicable fund  
12 or the preservation of the value of the investment. Such sale  
13 of securities or other property of either fund and reinvestment  
14 shall only be made in accordance with policies of the board in  
15 the manner and to the extent provided in this chapter.

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

20 c. To pay for securities directed to be purchased upon  
21 the receipt of the purchasing bank's paid statement or paid  
22 confirmation of purchase.

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

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

33 Sec. 16. Section 421.27, subsection 9, paragraph a,  
34 subparagraph (3), Code 2025, is amended to read as follows:

35 (3) In the case of all other entities, including corporations

1 described in section 422.36, subsection 5, and all other entities  
2 required to file an information return under section 422.15,  
3 subsection 2, the entity's Iowa net income after the application  
4 of the Iowa business activity ratio, if applicable, multiplied  
5 by the income tax rate imposed under section 422.5, as may be  
6 adjusted pursuant to section 422.5B, for the tax year, less any  
7 Iowa tax credits available to the entity.

8 Sec. 17. NEW SECTION. **422.5B Reduction of the individual**  
9 **income tax rate and alternate tax rate.**

10 1. For tax years beginning on or after January 1, 2030, and  
11 notwithstanding the individual income tax rate in section 422.5,  
12 subsection 1, paragraph "a", the department of revenue shall  
13 determine the individual income tax rate as provided in this  
14 section. The tax rate in effect in section 422.5 shall remain  
15 in effect until the rate is adjusted pursuant to subsection 2.  
16 A rate adjusted in subsection 2 shall remain in effect until the  
17 rate is adjusted again pursuant to this section.

18 2. a. Before November 1, 2029, and before November 1 each  
19 year thereafter, until the individual income tax rate is adjusted  
20 to zero, the department of management shall determine the amount  
21 of money available in the income tax elimination fund in section  
22 97E.4, and the net individual income tax receipts at the close  
23 of the preceding fiscal year. The amount available in the income  
24 tax elimination fund and the net tax receipts shall be provided  
25 to the department of revenue for the calculation in paragraph  
26 "b".

27 b. By November 1, 2029, and by November 1 each year  
28 thereafter, the department of revenue shall adjust the individual  
29 income tax rate as provided in this paragraph if all of the  
30 following apply:

31 (1) The amount of net sales and use tax revenue collected  
32 by the state during the most recent October 1 through September  
33 30 calculation period is greater than one hundred three percent  
34 of the net sales and use tax revenue collected during the  
35 immediately preceding calculation period covering the same

1 months.

2 (2) The rate is able to be adjusted downward at least  
3 one-tenth of one percent in such a way that the proposed  
4 adjusted rate would have generated an amount equal to the net  
5 individual income tax receipts generated from the rate in the  
6 preceding fiscal year less any transfer amount from the income  
7 tax elimination fund in section 97E.4. If the rate is adjusted,  
8 the rate shall be adjusted downward to the nearest one-tenth of  
9 one percent.

10 (3) There is less than four hundred fifty million dollars  
11 in the income tax elimination fund in section 97E.4, excluding  
12 the amount in the expense account in section 97E.4, but at least  
13 one hundred fifty percent of the amount to be transferred to the  
14 general fund of the state pursuant to subsection 3 is available  
15 in the income tax elimination fund.

16 c. If a determination is made by the department of revenue  
17 that the rate is subject to adjustment, the department of revenue  
18 shall adjust the rate specified in section 422.5, subsection  
19 1, paragraph "a", or if the rate has been previously adjusted,  
20 adjust the previously adjusted rate.

21 3. If an adjustment is made pursuant to subsection 2, one  
22 hundred fifty percent of the amount of moneys in the income  
23 tax elimination fund used in the calculation in subsection 2,  
24 paragraph "b", subparagraph (2), shall be transferred to the  
25 general fund of the state in the fiscal year the rate is  
26 adjusted.

27 4. If the moneys in the income tax elimination fund in  
28 section 97E.4 reach four hundred fifty million dollars as  
29 determined under subsection 2, paragraph "a", excluding the  
30 amount in the expense account in section 97E.4, the moneys in the  
31 income tax elimination fund, excluding the amount in the expense  
32 account, shall be transferred to the taxpayer relief trust fund  
33 created in section 97E.3.

34 5. If the individual income tax rate is adjusted downward  
35 pursuant to subsection 2, the alternate state individual income

1 tax rate in section 422.5, subsection 2, paragraph "b", and  
2 section 422.5, subsection 3, paragraph "b", shall be adjusted  
3 downward in the same proportion as the downward adjustment of  
4 the individual income tax rate pursuant to subsection 2. If  
5 the alternate state individual income tax rate is adjusted, the  
6 rate shall be adjusted downward to the nearest one-tenth of one  
7 percent. If the individual income tax rate is adjusted to zero  
8 pursuant to subsection 2, the alternate state individual income  
9 tax rate shall be zero.

10 6. If the rates are adjusted pursuant to subsections 2 and 5,  
11 the director of revenue shall cause an advisory notice containing  
12 the new individual income tax rate and alternate tax rate to  
13 be published in the Iowa administrative bulletin and on the  
14 internet site of the department of revenue. The calculation  
15 and publication of the adjusted tax rates by the director of  
16 revenue is exempt from chapter 17A, and shall be submitted for  
17 publication by the first December 31 following the determination  
18 date to adjust the rates.

19 Sec. 18. Section 422.16, subsection 2, paragraph e, Code  
20 2025, is amended to read as follows:

21 e. For the purposes of this subsection, state income tax  
22 shall be withheld at the rate described in section 422.5, as  
23 may be adjusted pursuant to section 422.5B, from supplemental  
24 wages of an employee in those circumstances in which the employer  
25 treats the supplemental wages as wholly separate from regular  
26 wages for purposes of withholding and federal income tax is  
27 withheld from the supplemental wages under section 3402(g) of the  
28 Internal Revenue Code.

29 Sec. 19. Section 422.16B, subsection 2, paragraph a, Code  
30 2025, is amended to read as follows:

31 a. (1) A pass-through entity shall file a composite return  
32 on behalf of all nonresident members and shall report and pay  
33 the income or franchise tax imposed under this chapter at the  
34 maximum state income or franchise tax rate applicable to the  
35 member under section 422.5, 422.5B, 422.33, or 422.63 on the

1 nonresident members' distributive shares of the income from the  
2 pass-through entity.

3 (2) The tax rate applicable to a tiered pass-through entity  
4 shall be the state income tax rate under section 422.5, as may be  
5 adjusted pursuant to section 422.5B.

6 Sec. 20. Section 422.16C, subsection 4, paragraph a, Code  
7 2025, is amended to read as follows:

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

16 EXPLANATION

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

19 This bill relates to the elimination of the individual income  
20 tax and alternate income tax by creating the taxpayer relief  
21 trust fund and income tax elimination board and fund.

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

29 TRANSFERS FROM TAXPAYER RELIEF FUND. Beginning on July 1,  
30 2025, the bill transfers \$100 million from the taxpayer relief  
31 fund (TRF) to the ITEF.

32 On January 1, 2026, the bill transfers \$2.6 billion from  
33 the TRF to the trust fund. For FY 2028, and each fiscal year  
34 thereafter, the bill transfers from TRF to the trust fund, an  
35 amount equal to 25 percent of moneys transferred into the TRF

1 each fiscal year.

2 TRUST FUND. The trust fund is created beginning January 1,  
3 2026, separate and apart from all other public moneys or funds  
4 of this state and the balance in the trust fund shall not be  
5 considered part of the balance of the general fund of the state.

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

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

14 Beginning July 1, 2029, and each July 1 thereafter, the bill  
15 transfers 5 percent of the remaining balance of the trust fund at  
16 the close of the preceding fiscal year into the ITEF.

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

21 ITEF. The bill establishes the ITEF on January 1, 2026. The  
22 ITEF shall consist of all moneys transferred to the fund from the  
23 trust fund or appropriated to or otherwise collected by ITEF for  
24 the purpose of reducing the individual income tax rate 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 the individual income tax rate is 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 rate is adjusted to  
32 zero.

33 EXPENSES. The investment management and administrative  
34 expenses for the trust fund and fund shall be first charged  
35 against the expense account established in new Code section

1 97E.5, and if the expense account is insufficient to pay the  
2 expenses, the expenses shall be paid next from ITEF and then from  
3 the trust fund. The administrative expenses shall be the higher  
4 of \$5 million or two-tenths of 1 percent of the combined value of  
5 the trust fund and elimination fund on June 30 each year either  
6 fund contained moneys in the preceding fiscal year.

7 BOARD. The bill creates the income tax elimination board to  
8 establish policy and to review implementation of the policy, in  
9 matters relating to the investment of the trust fund and the  
10 ITEF. The bill establishes the board as trustee of both funds.

11 The board shall review and approve the administrative expenses  
12 of the system each fiscal year.

13 Prior to July 1, 2027, the system may contract with any  
14 custodian bank currently being utilized for the custody of  
15 retirement fund assets.

16 On or after July 1, 2027, the system shall not select any  
17 bank or other third party for the purposes of investment asset  
18 safekeeping, other custody, or settlement services without prior  
19 consultation with and approval of the board.

20 The bill requires the board to report to the fiscal committee  
21 of the legislative council.

22 The board shall consist of 11 members, including 7 voting  
23 members and 4 nonvoting members.

24 The voting members shall be as follows: four public members,  
25 appointed by the governor who each have substantial experience  
26 in institutional investment, institutional finance, or business  
27 management; two public members, appointed by the governor who  
28 are citizens of the state; and the director of the department of  
29 management.

30 The nonvoting members of the board shall be two state  
31 representatives, one appointed by the speaker of the house of  
32 representatives and one by the minority leader of the house,  
33 and two state senators, one appointed by the majority leader of  
34 the senate and one by the minority leader of the senate. Code  
35 section 4A.5 (dissolution of boards) does not apply to the board.

1 IPERS. The bill requires IPERS and the board to develop  
2 separate investment policies for each fund. IPERS and the  
3 board have broader authority to establish the investment policy  
4 for the trust fund than the investment policy for ITEF. The  
5 investment policy for the ITEF shall be similar to the Iowa  
6 public employees' retirement system in Code chapter 97B. In  
7 developing the investment policy for either fund, the bill  
8 requires IPERS and the board to exercise judgment and care  
9 that requires prudence, discretion, probable income, and probable  
10 safety, as if investing personal funds. The board is required to  
11 give appropriate consideration to investments that are reasonably  
12 designed to further the purposes of each fund, taking into  
13 consideration the risk of loss and the opportunity for gain or  
14 income associated with the investment or investment policy.

15 The bill allows each fund to acquire and retain every kind of  
16 property and every kind of investment which persons of prudence,  
17 discretion, and intelligence acquire or retain for a personal  
18 account.

19 The bill specifies if there is loss to either fund, IPERS, the  
20 employees of IPERS, the members of the board severally, and the  
21 board are not personally liable, and the loss shall be charged  
22 against the trust fund or fund, as applicable, unless the conduct  
23 involves malicious or wanton misconduct.

24 IPERS, in accordance with the investment policy established by  
25 the board, is authorized under the bill to sell any securities or  
26 other property in the trust fund and reinvest the proceeds when  
27 such action may be deemed advisable by IPERS for the protection  
28 of the fund or the preservation of the value of the investment.

29 The bill allows IPERS, subject to board approval, to execute  
30 contracts and agreements with investment advisors and consultants  
31 in the administration of investments of moneys in either fund.

32 ADJUSTING INDIVIDUAL AND ALTERNATE INCOME TAX RATE. By  
33 November 1, 2029, and by November 1 each year thereafter, the  
34 department of management shall determine the amount of moneys  
35 available in the ITEF, and the net individual income tax receipts

1 at the close of the preceding fiscal year. The amount available  
2 in the ITEF and the net tax receipts shall be provided to the  
3 department of revenue for the calculation to determine if the  
4 individual income tax rate may be adjusted. The bill specifies  
5 the department of revenue shall adjust and apply a new individual  
6 income tax rate in such a way that the rate would have generated  
7 an amount equal to the net receipts generated from the rate in  
8 the preceding fiscal year less the amount transferred from the  
9 ITEF.

10 The bill prohibits the individual income tax rate from being  
11 adjusted unless the amount of net sales and use tax revenue  
12 collected by the state during the most recent October 1 through  
13 September 30 calculation period is greater than 103 percent of  
14 the net sales and use tax revenue collected during the preceding  
15 calculation period covering the same months.

16 The bill prohibits the rate from being adjusted unless the  
17 rate is able to be adjusted at least one-tenth of 1 percent.  
18 The rate, when adjusted, shall be rounded down to the nearest  
19 one-tenth of 1 percent.

20 The bill prohibits the rate from being adjusted unless there  
21 is less than \$450 million in the ITEF, excluding the amount in  
22 the expense account, and at least 150 percent of the amount to be  
23 transferred to the general fund of the state is available in the  
24 ITEF.

25 The bill requires the moneys in the ITEF be transferred to  
26 the general fund of the state in the fiscal year the rate is  
27 adjusted. The bill specifies the transfer from the ITEF to the  
28 general fund of the state shall not be considered "new revenue"  
29 for purposes of the general fund expenditure limitation in Code  
30 section 8.54.

31 If the rate is adjusted downward pursuant to the bill, the  
32 alternate state individual income tax rate shall be adjusted  
33 downward in the same proportion to the nearest one-tenth of 1  
34 percent.

35 If a tax rate is adjusted, the bill requires the director of

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1 revenue to cause an advisory notice containing the new individual  
2 income tax rate and alternate tax rate to be published in the  
3 Iowa administrative bulletin and on the internet site of the  
4 department of revenue. The calculation and publication of the  
5 adjusted tax rates by the director of revenue is exempt from Code  
6 chapter 17A, and shall be submitted for publication by the first  
7 December 31 following the determination date to adjust the tax  
8 rates.

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