House File 2045 - Reprinted

HOUSE FILE ______
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 502)

Passed House, Date ____________ Passed Senate, Date ____________
Vote: Ayes ______ Nays _______ Vote: Ayes ______ Nays ________
Approved ____________________________

A BILL FOR

An Act relating to income taxation by providing for a senior taxpayer income tax exclusion and phasing out the state income tax on social security benefits and on pension and retirement income and including effective and applicability date provisions.

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

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Section 1. Section 422.5, Code 2005, is amended by adding the following new subsection:

NEW SUBSECTION. 2A. However, the tax shall not be imposed on a resident or nonresident who is at least sixty=five years old on December 31 of the tax year and whose net income, as defined in section 422.7, is forty=eight thousand dollars or less in the case of married persons filing jointly or filing separately on a combined return, unmarried heads of household, and surviving spouses or thirty=six thousand dollars or less in the case of all other persons; but in the event that the payment of tax under this division would reduce the net income to less than forty=eight thousand dollars or thirty=six thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of forty=eight thousand dollars or thirty=six thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. For purposes of this subsection, net income includes all amounts of pensions or other retirement income received from any source which is not taxable under this division as a result of the government pension exclusions in section 422.7, or any other state law. If the combined net income of a husband and wife exceeds forty=eight thousand dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of forty=eight thousand dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in section 422.9, subsection 3. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding forty=eight thousand dollars or thirty=six thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding forty=eight thousand dollars or thirty=six thousand dollars as applicable.

In addition, if the married persons', filing jointly or filing separately on a combined return, unmarried head of household's, or surviving spouse's net income exceeds forty=eight thousand dollars, the regular tax imposed under this division shall be the lesser of the maximum state individual income tax rate times the portion of the net income in excess of forty=eight thousand dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the husband

and wife. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward the loss as provided in section 422.9, subsection 3.

This subsection applies even though one spouse has not attained the age of sixty=five, if the other spouse is at least sixty=five at the end of the tax year.

Sec. 2. Section 422.5, subsection 7, Code 2005, is amended to read as follows:

7. In addition to the other taxes imposed by this section, a tax is imposed on the amount of a lump sum distribution for which the taxpayer has elected under section 402(e) of the Internal Revenue Code to be separately taxed for federal income tax purposes for the tax year. The rate of tax is equal to twenty=five percent of the separate federal tax imposed on the amount of the lump sum distribution. A nonresident is liable for this tax only on that portion of the lump sum distribution allocable to Iowa. The total amount of the lump sum distribution subject to separate federal tax shall be included in net income for purposes of determining eligibility under ~~the thirteen thousand five hundred dollar or less or nine thousand dollar or less exclusion, as applicable~~ subsections 2 and 2A.

Sec. 3. Section 422.7, subsection 13, Code Supplement 2005, is amended to read as follows:

13. a. Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994, but before January 1, 2011. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994, but before January 1, 2011.

b. (1) For tax years beginning in the 2007 calendar year, subtract, to the extent included, twenty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(2) For tax years beginning in the 2008 calendar year, subtract, to the extent included, forty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(3) For tax years beginning in the 2009 calendar year, subtract, to the extent included, sixty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

(4) For tax years beginning in the 2010 calendar year, subtract, to the extent included, eighty percent of taxable social security benefits remaining after the subtraction in paragraph "a".

c. Married taxpayers, who file a joint federal income tax return and who elect to file separate returns or who elect separate filing on a combined return for state income tax purposes, shall allocate between the spouses the amount of benefits subtracted under paragraphs "a" and "b" from net income in the ratio of the social security benefits received by each spouse to the total of these benefits received by both spouses.

d. For tax years beginning on or after January 1, 2011, subtract, to the extent included, the amount of social security benefits taxable under section 86 of the Internal Revenue Code.

Sec. 4. Section 422.7, subsection 31, Code Supplement 2005, is amended to read as follows:

31. a. For a person who is disabled, or is fifty=five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under this subsection for the tax year, subtract, to the extent included, the total amount of a governmental or other pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self=employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of six thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of twelve thousand dollars for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or fifty=five years of age or older can only exclude the amount of pension

or retirement pay received as a result of the death of the other spouse. A husband and wife filing separate state income tax returns or separately on a combined state return are allowed a combined maximum exclusion under this subsection of up to twelve thousand dollars. The twelve thousand dollar exclusion shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

b. For the tax year beginning January 1, 2007, subtract an amount equal to twenty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

c. For the tax year beginning January 1, 2008, subtract an amount equal to forty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

d. For the tax year beginning January 1, 2009, subtract an amount equal to sixty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

e. For the tax year beginning January 1, 2010, subtract an amount equal to eighty percent of the income described in paragraph "a" after the exclusion in paragraph "a" is subtracted.

f. For tax years beginning on or after January 1, 2011, subtract the total amount of the income described in paragraph "a".

g. For a husband and wife filing separate state income tax returns or separately on a combined state return, the additional exclusion in paragraphs "b" through "f" shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

Sec. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. The sections of this Act enacting section 422.5, subsection 2A, and amending section 422.5, subsection 7, take effect January 1, 2008, and apply to tax years beginning on or after that date. The sections of this Act amending section 422.7, subsections 13 and 31, take effect January 1, 2007, and apply to tax years beginning on or after that date.

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