

JAN 1 1 2006
WAYS & MEANS CALENDAR

HOUSE FILE **2045**
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

1 An Act phasing out the state income tax on social security
2 benefits and on pension and retirement income and including
3 effective and applicability date provisions.

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

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HF 2045

1 Section 1. Section 422.7, subsection 13, Code Supplement
2 2005, is amended to read as follows:

3 13. a. Subtract, to the extent included, the amount of
4 additional social security benefits taxable under the Internal
5 Revenue Code for tax years beginning on or after January 1,
6 1994, but before January 1, 2011. The amount of social
7 security benefits taxable as provided in section 86 of the
8 Internal Revenue Code, as amended up to and including January
9 1, 1993, continues to apply for state income tax purposes for
10 tax years beginning on or after January 1, 1994, but before
11 January 1, 2011.

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

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

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

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

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

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

5 Sec. 2. Section 422.7, subsection 31, Code Supplement
6 2005, is amended to read as follows:

7 31. a. For a person who is disabled, or is fifty-five
8 years of age or older, or is the surviving spouse of an
9 individual or a survivor having an insurable interest in an
10 individual who would have qualified for the exemption under
11 this subsection for the tax year, subtract, to the extent
12 included, the total amount of a governmental or other pension
13 or retirement pay, including, but not limited to, defined
14 benefit or defined contribution plans, annuities, individual
15 retirement accounts, plans maintained or contributed to by an
16 employer, or maintained or contributed to by a self-employed
17 person as an employer, and deferred compensation plans or any
18 earnings attributable to the deferred compensation plans, up
19 to a maximum of six thousand dollars for a person, other than
20 a husband or wife, who files a separate state income tax
21 return and up to a maximum of twelve thousand dollars for a
22 husband and wife who file a joint state income tax return.
23 However, a surviving spouse who is not disabled or fifty-five
24 years of age or older can only exclude the amount of pension
25 or retirement pay received as a result of the death of the
26 other spouse. A husband and wife filing separate state income
27 tax returns or separately on a combined state return are
28 allowed a combined maximum exclusion under this subsection of
29 up to twelve thousand dollars. The twelve thousand dollar
30 exclusion shall be allocated to the husband or wife in the
31 proportion that each spouse's respective pension and
32 retirement pay received bears to total combined pension and
33 retirement pay received.

34 b. For the tax year beginning January 1, 2007, subtract an
35 amount equal to twenty percent of the income described in

1 paragraph "a" after the exclusion in paragraph "a" is
2 subtracted.

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

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

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

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

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

24 Sec. 3. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. This
25 Act takes effect January 1, 2007, and applies to tax years
26 beginning on or after that date.

27 EXPLANATION

28 This bill phases out the state income tax on social
29 security benefits over a five-year period and phases out the
30 state income tax on pension and retirement income over the
31 same five-year period.

32 For the tax year beginning on January 1, 2007, 20 percent
33 of taxable social security benefits are exempted; for the tax
34 year beginning on January 1, 2008, 40 percent of taxable
35 social security benefits are exempted; for the tax year

1 beginning on January 1, 2009, 60 percent of taxable social
2 security benefits are exempted; for the tax year beginning on
3 January 1, 2010, 80 percent of taxable social security
4 benefits are exempted; and for tax years beginning on or after
5 January 1, 2011, 100 percent of social security benefits are
6 exempted from state income taxation.

7 For the tax year beginning January 1, 2007, an additional
8 20 percent of pension or retirement income is exempted after
9 the \$6,000 (for single filers) or \$12,000 (for married filers)
10 is subtracted. For the tax year beginning January 1, 2008, an
11 additional 40 percent is exempted; for the tax year beginning
12 January 1, 2009, an additional 60 percent is exempted; for the
13 tax year beginning January 1, 2010, an additional 80 percent
14 is exempted; and for tax years beginning January 1, 2011, and
15 all subsequent tax years, the total amount of pension and
16 retirement income is exempted from state income taxation.

17 The bill takes effect January 1, 2007, and applies to tax
18 years beginning on or after that date.

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EIGHTY-FIRST GENERAL ASSEMBLY
2006 REGULAR SESSION
DAILY
HOUSE CLIP SHEET

JANUARY 13, 2006

HOUSE FILE 2045

H-8001

1 Amend House File 2045 as follows:

2 1. By striking page 1, line 1, through page 2,
3 line 4, and inserting the following:

4 "Section 1. Section 422.7, subsection 13, Code
5 2005, is amended to read as follows:

6 13. a. Subtract, to the extent included, the
7 amount of additional social security benefits taxable
8 under the Internal Revenue Code for tax years
9 beginning on or after January 1, 1994. The amount of
10 social security benefits taxable as provided in
11 section 86 of the Internal Revenue Code, as amended up
12 to and including January 1, 1993, with the adjustments
13 in paragraph "b", continues to apply for state income
14 tax purposes for tax years beginning on or after
15 January 1, 1994. Married taxpayers, who file a joint
16 federal income tax return and who elect to file
17 separate returns or who elect separate filing on a
18 combined return for state income tax purposes, shall
19 allocate between the spouses the amount of benefits
20 subtracted from net income in the ratio of the social
21 security benefits received by each spouse to the total
22 of these benefits received by both spouses.

23 b. In computing the amount of taxable social
24 security benefits under paragraph "a" for tax years
25 beginning on or after January 1, 2007, the term "base
26 amount" in section 86 of the Internal Revenue Code, as
27 amended up to and including January 1, 1993, means one
28 of the following:

29 (1) Except as otherwise provided in subparagraphs
30 (2) and (3), thirty thousand dollars.

31 (2) In the case of a joint return, thirty-eight
32 thousand four hundred dollars.

33 (3) In the case of a taxpayer who is married but
34 does not file a joint return and does not live apart
35 from the taxpayer's spouse at all times during the tax
36 year, zero.

37 c. (1) For the tax year beginning in the 2008
38 calendar year and for each subsequent tax year, the
39 adjusted base dollar amounts set forth in paragraph
40 "b" shall be multiplied by the cumulative adjustment
41 factor for that tax year. "Cumulative adjustment
42 factor" means the product of the annual adjustment
43 factor for the 2007 calendar year and all annual
44 adjustment factors for subsequent calendar years. The
45 cumulative adjustment factor applies to the tax year
46 beginning in the calendar year for which the latest
47 annual adjustment factor has been determined.

48 (2) The annual adjustment factor for the 2007
49 calendar year is one hundred percent. For each
50 subsequent calendar year, the annual adjustment factor

H-8001

1 equals the annual inflation factor for the calendar
2 year, in which the tax year begins, as computed in
3 section 422.4 for purposes of the individual income
4 tax."

5 2. Page 2, line 19, by striking the words "six
6 thousand" and inserting the following: "~~six~~ seven
7 thousand two hundred".

8 3. Page 2, line 21, by striking the words "twelve
9 thousand" and inserting the following: "~~twelve~~
10 fourteen thousand four hundred".

11 4. Page 2, by striking line 29 and inserting the
12 following: "up to ~~twelve~~ fourteen thousand four
13 hundred dollars. The ~~twelve~~ fourteen thousand four
14 hundred dollar".

15 5. By striking page 2, line 34, through page 3,
16 line 23, and inserting the following:

17 "b. (1) For the tax year beginning in the 2008
18 calendar year and for each subsequent tax year, the
19 maximum exclusion dollar amounts set forth in
20 paragraph "a" shall be multiplied by the cumulative
21 adjustment factor for that tax year. "Cumulative
22 adjustment factor" means the product of the annual
23 adjustment factor for the 2007 calendar year and all
24 annual adjustment factors for subsequent calendar
25 years. The cumulative adjustment factor applies to
26 the tax year beginning in the calendar year for which
27 the latest annual adjustment factor has been
28 determined.

29 (2) The annual adjustment factor for the 2007
30 calendar year is one hundred percent. For each
31 subsequent calendar year, the annual adjustment factor
32 equals the annual inflation factor for the calendar
33 year, in which the tax year begins, as computed in
34 section 422.4 for purposes of the individual income
35 tax."

36 6. Title page, line 1, by striking the words
37 "phasing out" and inserting the following: "reducing".

By HOGG of Linn

EIGHTY-FIRST GENERAL ASSEMBLY
2006 REGULAR SESSION
DAILY
HOUSE CLIP SHEET

JANUARY 26, 2006

HOUSE FILE 2045

H-8004

1 Amend House File 2045 as follows:

2 1. Page 3, by inserting after line 23 the
3 following:

4 "Sec. ____ . Section 453A.6, subsection 1, Code
5 2005, is amended to read as follows:

6 1. There is imposed, and shall be collected and
7 paid to the department, ~~the following taxes~~ a tax on
8 all cigarettes used or otherwise disposed of in this
9 state for any purpose whatsoever:

10 ~~Class A. On cigarettes weighing not more than~~
11 ~~three pounds per thousand, eighteen mills on each such~~
12 ~~cigarette.~~

13 ~~Class B. On cigarettes weighing more than three~~
14 ~~pounds per thousand, eighteen mills on each such~~
15 ~~cigarette. equal to the following:~~

16 a. From January 1, 2007, through June 30, 2007,
17 two and seventy-five hundredths cents on each
18 cigarette.

19 b. During the fiscal year beginning July 1, 2007,
20 three and thirty-five hundredths cents on each
21 cigarette.

22 c. During the fiscal year beginning July 1, 2008,
23 four and sixty-five hundredths cents on each
24 cigarette.

25 d. During the fiscal year beginning July 1, 2009,
26 six and seventy-five hundredths cents on each
27 cigarette.

28 e. During fiscal years beginning on or after July
29 1, 2010, seven and eighty-five hundredths cents per
30 cigarette.

31 Sec. ____ . Section 453A.43, subsection 1,
32 unnumbered paragraph 1, Code 2005, is amended to read
33 as follows:

34 A tax is imposed upon all tobacco products in this
35 state and upon any person engaged in business as a
36 distributor of tobacco products, at the ~~rate of~~
37 ~~twenty-two percent~~ percentage rate specified in
38 subsection 7 of the wholesale sales price of the
39 tobacco products, except little cigars as defined in
40 section 453A.42. Little cigars shall be subject to
41 the same rate of tax imposed upon cigarettes in
42 section 453A.6, payable at the time and in the manner
43 provided in section 453A.6; and stamps shall be
44 affixed as provided in division I of this chapter.
45 The tax on tobacco products, excluding little cigars,
46 shall be imposed at the time the distributor does any
47 of the following:

48 Sec. ____ . Section 453A.43, subsection 2,
49 unnumbered paragraph 1, Code 2005, is amended to read
50 as follows:

H-8004

1 A tax is imposed upon the use or storage by
2 consumers of tobacco products in this state, and upon
3 the consumers, at the ~~rate of twenty two percent~~
4 percentage rate specified in subsection 7 of the cost
5 of the tobacco products.

6 Sec. _____. Section 453A.43, Code 2005, is amended
7 by adding the following new subsection:

8 NEW SUBSECTION. 7. The percentage rate of tobacco
9 tax under this section is the following:

10 a. From January 1, 2007, through June 30, 2007,
11 thirty-three and seven-tenths percent.

12 b. During the fiscal year beginning July 1, 2007,
13 forty and nine-tenths percent.

14 c. During the fiscal year beginning July 1, 2008,
15 fifty-six and eight-tenths percent.

16 d. During the fiscal year beginning July 1, 2009,
17 eighty-two and five-tenths percent.

18 e. During the fiscal years beginning on or after
19 July 1, 2010, ninety-five and nine-tenths percent."

20 2. Page 3, by striking lines 25 and 26 and
21 inserting the following: "Act takes effect January 1,
22 2007. The sections of this Act amending section
23 422.7, subsections 13 and 31, apply to tax years
24 beginning on or after the effective date of this Act."

25 3. Title page, line 2, by inserting after the
26 word "income" the following: "and replacing the lost
27 revenues".

28 4. By renumbering as necessary.

By MASCHER of Johnson

**EIGHTY-FIRST GENERAL ASSEMBLY
2006 REGULAR SESSION
DAILY
HOUSE CLIP SHEET**

JANUARY 31, 2006

HOUSE FILE 2045

H-8005

1 Amend House File 2045 as follows:

2 1. By striking everything after the enacting
3 clause and inserting the following:

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

6 NEW SUBSECTION. 2A. However, the tax shall not be
7 imposed on a resident or nonresident who is at least
8 sixty-five years old on December 31 of the tax year
9 and whose net income, as defined in section 422.7, is
10 forty-eight thousand dollars or less in the case of
11 married persons filing jointly or filing separately on
12 a combined return thirty-six thousand dollars or less
13 in the case of all other persons; but in the event
14 that the payment of tax under this division would
15 reduce the net income to less than forty-eight
16 thousand dollars or thirty-six thousand dollars as
17 applicable, then the tax shall be reduced to that
18 amount which would result in allowing the taxpayer to
19 retain a net income of forty-eight thousand dollars or
20 thirty-six thousand dollars as applicable. The
21 preceding sentence does not apply to estates or
22 trusts. For the purpose of this subsection, the
23 entire net income, including any part of the net
24 income not allocated to Iowa, shall be taken into
25 account. For purposes of this subsection, net income
26 includes all amounts of pensions or other retirement
27 income received from any source which is not taxable
28 under this division as a result of the government
29 pension exclusions in section 422.7, or any other
30 state law. If the combined net income of a husband
31 and wife exceeds forty-eight thousand dollars, neither
32 of them shall receive the benefit of this subsection,
33 and it is immaterial whether they file a joint return
34 or separate returns. However, if a husband and wife
35 file separate returns and have a combined net income
36 of forty-eight thousand dollars or less, neither
37 spouse shall receive the benefit of this paragraph, if
38 one spouse has a net operating loss and elects to
39 carry back or carry forward the loss as provided in
40 section 422.9, subsection 3. A person who is claimed
41 as a dependent by another person as defined in section
42 422.12 shall not receive the benefit of this
43 subsection if the person claiming the dependent has
44 net income exceeding forty-eight thousand dollars or
45 thirty-six thousand dollars as applicable or the
46 person claiming the dependent and the person's spouse
47 have combined net income exceeding forty-eight
48 thousand dollars or thirty-six thousand dollars as
49 applicable.

50 In addition, if the married persons', filing

H-8005

1 jointly or filing separately on a combined return, net
2 income exceeds forty-eight thousand dollars, the
3 regular tax imposed under this division shall be the
4 lesser of the maximum state individual income tax rate
5 times the portion of the net income in excess of
6 forty-eight thousand dollars or the regular tax
7 liability computed without regard to this sentence.
8 Taxpayers electing to file separately shall compute
9 the alternate tax described in this paragraph using
10 the total net income of the husband and wife. The
11 alternate tax described in this paragraph does not
12 apply if one spouse elects to carry back or carry
13 forward the loss as provided in section 422.9,
14 subsection 3.

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

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

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

37 Sec. 3. EFFECTIVE AND APPLICABILITY DATE. This
38 Act takes effect January 1, 2007, and applies to tax
39 years beginning on or after that date."

40 2. Title page, by striking lines 1 and 2 and
41 inserting the following: "An Act providing for a
42 senior taxpayer income tax exclusion provision and
43 including".

By SWAIM of Davis
BELL of Jasper
BUKTA of Clinton
FORD of Polk
GASKILL of Wapello
KUHN of Floyd
LYKAM of Scott
MILLER of Webster
OLDSON of Polk
BERRY of Black Hawk
COHOON of Des Moines
DAVITT of Warren
FOEGE of Linn
FREVERT of Palo Alto
JACOBY of Johnson
KRESSIG of Black Hawk
MERTZ of Kossuth
MURPHY of Dubuque

D. OLSON of Boone
PETTENGILL of Benton
REASONER of Union
SCHUELLER of Jackson
SHOULTZ of Black Hawk
T. TAYLOR of Linn
WENDT of Woodbury
WHITAKER of Van Buren
WINCKLER of Scott
PETERSEN of Polk
QUIRK of Chickasaw
REICHERT of Muscatine
SHOMSHOR of Pottawattamie
D. TAYLOR of Linn
THOMAS of Clayton
WHITEAD of Woodbury
WISE of Lee

H-8005 FILED JANUARY 30, 2006

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 2045 provides for a five-year phase-out of income tax on all currently taxable pension and social security income. The phase-out (20.0% per year) starts with tax years beginning on or after January 1, 2007. Pension and social security income would be completely tax exempt beginning tax year 2011.

Pension income includes traditional employer pensions as well as retirement annuity disbursements from Individual Retirement Accounts (IRA's), and deferred compensation plans such as a 401(k).

Background

Iowa currently exempts the first \$6,000 (single) and \$12,000 (joint) of pension income from taxation. Iowa also exempts 50.0% of Social Security income for all taxpayers. The remaining 50.0% is exempt for taxpayers with total income of less than \$25,000 (single) or \$32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The phase-out of income tax on all currently-taxable pension and Social Security income is projected to reduce net General Fund revenue by the following amounts:

- FY 2007: \$ 18.1 million
- FY 2008: \$ 60.1 million
- FY 2009: \$102.5 million
- FY 2010: \$141.8 million
- FY 2011: \$175.7 million
- FY 2012: \$197.8 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Source

Department of Revenue

/s/ Holly M. Lyons

January 24, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.1)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - Revised

Description

House File 2045 provides for a five-year phase-out of income tax on all currently taxable pension and social security income. The phase-out (20.0% per year) starts with tax years beginning on or after January 1, 2007. Pension and social security income would be completely tax exempt beginning tax year 2011.

Pension income includes traditional employer pensions as well as retirement annuity disbursements from Individual Retirement Accounts (IRA's), and deferred compensation plans such as a 401(k).

This revised fiscal note adds a reference to the local option income surtax for schools.

Background

Iowa currently excludes the first \$6,000 (single) and \$12,000 (joint) of pension income from taxation. Iowa also excludes 50.0% of Social Security income for all taxpayers. The remaining 50.0% is excluded for taxpayers with total income of less than \$25,000 (single) or \$32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The phase-out of income tax on all currently-taxable pension and Social Security income is projected to reduce net General Fund revenue by the following amounts:

- FY 2007: \$ 18.1 million
- FY 2008: \$ 60.1 million
- FY 2009: \$102.5 million
- FY 2010: \$141.8 million
- FY 2011: \$175.7 million
- FY 2012: \$197.8 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans,

annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Since HF 2045 exempts retirement income from the Iowa personal income tax, the Bill will also lower the amount of money collected through the local option income surtax. The surtax is calculated as a percentage of State income tax liability. Revenue from the surtax is distributed to school districts implementing the tax.

Approximately 285 Iowa school districts currently have an income surtax. Statewide, the surtax raises an amount equal to approximately 3.0% of total net state income tax collections (\$68.6 million in FY 2005). Applying that percentage to the projected tax reductions listed above provides the following additional reductions in income taxes owed by taxpayers benefiting from the exclusions provided in the Bill.

- FY 2007: \$0.5 million
- FY 2008: \$1.8 million
- FY 2009: \$3.1 million
- FY 2010: \$4.3 million
- FY 2011: \$5.3 million
- FY 2012: \$5.9 million

Source

Department of Revenue

/s/ Holly M. Lyons

January 30, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.2)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – Amendment H-8001 to HF 2045

Description

House File 2045 provides for a five-year phase-out of income tax on all currently taxable pension and social security income.

Amendment H-8001 strikes the phased-out of income taxes on retirement income and inserts increases in the maximum pension exclusion and the Social Security income taxation thresholds. The pension exclusion is raised to \$7,200 (single) and \$14,400 (joint). The income threshold where Social Security begins to be taxable is increased to \$30,000 (single) and \$38,400 (married).

The amendment also provides for indexing the pension exclusion and the Social Security threshold amounts going forward. This will increase the exclusions and thresholds annually at the rate of inflation.

Background

Iowa currently excludes the first \$6,000 (single) and \$12,000 (joint) of pension income from taxation. Iowa also excludes 50.0% of Social Security income for all taxpayers. The remaining 50.0% is excluded for taxpayers with total income of less than \$25,000 (single) or \$32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The change to the pension exclusion and the Social Security threshold, along with the indexation of both, is projected to reduce net General Fund revenue by the following amounts:

- FY 2007: \$10.6 million
- FY 2008: \$26.5 million
- FY 2009: \$31.6 million
- FY 2010: \$36.5 million
- FY 2011: \$40.4 million
- FY 2012: \$44.9 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Since H-8001 excludes additional retirement income from the Iowa personal income tax, the amendment will also lower the amount of money collected through the local option income surtax. The surtax is calculated as a percentage of State income tax liability. Revenue from the surtax is distributed to school districts implementing the tax.

Approximately 285 Iowa school districts currently have an income surtax. Statewide, the surtax raises an amount equal to approximately 3.0% of total net state income tax collections (\$68.6 million in FY 2005). Applying that percentage to the projected tax reductions listed above provides the following additional reductions in income taxes owed by taxpayers benefiting from the exclusions provided in the amendment.

- FY 2007: \$0.3 million
- FY 2008: \$0.8 million
- FY 2009: \$0.9 million
- FY 2010: \$1.1 million
- FY 2011: \$1.2 million
- FY 2012: \$1.3 million

Source

Department of Revenue

/s/ Holly M. Lyons

January 30, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.3)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – Amendment H8004 to HF 2045

Description

Amendment H-8004 to HF 2045 increases Iowa's current cigarette tax to replace some of the tax revenue reduction associated with HF 2045. The amendment raises Iowa's current \$0.36 per pack cigarette by:

- \$0.19 cents January 1, 2007 (total per pack tax equals \$0.55).
- \$0.31 cents July 1, 2007 (total per pack tax equals \$0.67).
- \$0.57 cents July 1, 2008 (total per pack tax equals \$0.93).
- \$0.99 cents July 1, 2009 (total per pack tax equals \$1.35).
- \$1.21 cents July 1, 2010 (total per pack tax equals \$1.57).

The amendment also increases the current tobacco products tax by a percentage similar to the percentage increase in the cigarette tax.

Fiscal Impact

The additional revenue associated with the proposed cigarette and tobacco tax increases contained in amendment H-8004 are presented in the following table, along with the State General Fund revenue impact projected for HF 2045 (without amendment) and the net impact of the Bill if amended. The impact of HF 2045 on local option income surtax revenue is not altered by the amendment.

HF 2045 Fiscal Impact			
With Amendment H-8004			
<u>TY/FY</u>	<u>Income Tax Impact</u>	<u>Cig./Tob. Tax Impact</u>	<u>Net Revenue Impact</u>
2007	\$ - 18.1	\$ 18.1	\$ 0.0
2008	- 60.1	60.1	0.0
2009	- 102.5	102.5	0.0
2010	- 141.8	141.8	0.0
2011	- 175.7	145.9	- 29.8
2012	- 197.8	145.9	- 51.9

Source

Department of Revenue

/s/ Holly M. Lyons

January 30, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

HOUSE FILE 2045

H-8006

1 Amend the amendment, H-8005, to House File 2045 as
2 follows:

3 1. Page 1, by striking lines 2 and 3, and
4 inserting the following:

5 "____. Page 1, by inserting before line 1, the
6 following:"

7 2. Page 1, line 12, by inserting after the word
8 "return" the following: ", unmarried heads of
9 household, and surviving spouses or".

10 3. Page 2, line 1, by inserting after the word
11 "return," the following: "unmarried head of
12 household's, or surviving spouse's".

13 4. Page 2, line 36, by striking the figure "2A."
14 and inserting the following: "2A."

15 5. Page 2, by striking lines 37 through 43, and
16 inserting the following:

17 "____. Title page, line 1, by inserting after the
18 word "Act" the following: "relating to income
19 taxation by providing for a senior taxpayer income tax
20 exclusion and"."

21 6. By renumbering as necessary.

By BOAL of Polk

J. K. VAN FOSSEN of Scott

H-8006 FILED JANUARY 31, 2006

A & B - WITHDRAWN

HOUSE FILE 2045

H-8007

1 Amend the amendment, H-8005, to House File 2045 as
2 follows:

3 1. Page 1, line 12, by inserting after the word
4 "return" the following: ", unmarried heads of
5 household, and surviving spouses or".

6 2. Page 2, line 1, by inserting after the word
7 "return," the following: "unmarried head of
8 household's, or surviving spouse's".

9 3. Page 2, line 38, by striking the figure
10 "2007," and inserting the following: "2008,".

By SWAIM of Davis

H-8007 FILED JANUARY 31, 2006

ADOPTED

HOUSE FILE 2045

H-8009

1 Amend the amendment, H-8005, to House File 2045 as
2 follows:

3 1. Page 1, by striking lines 2 and 3, and
4 inserting the following:

5 "____. Page 1, by inserting before line 1, the
6 following:"

7 2. Page 2, line 36, by striking the figure "2A."
8 and inserting the following: "2A."

9 3. Page 2, by striking lines 37 through 43, and
10 inserting the following:

11 "____. Page 3, by striking lines 24 through 26,
12 and inserting the following:

13 "Sec. ____ . EFFECTIVE AND APPLICABILITY DATE
14 PROVISIONS. The sections of this Act enacting section
15 422.5, subsection 2A, and amending section 422.5,
16 subsection 7, take effect January 1, 2008, and apply
17 to tax years beginning on or after that date. The
18 sections of this act amending section 422.7,
19 subsection 13 and 31, take effect January 1, 2007, and
20 apply to tax years beginning on or after that date."

21 ____ . Title page, line 1, by inserting after the
22 word "Act" the following: "relating to income
23 taxation by providing for a senior taxpayer income tax
24 exclusion and"."

25 4. By renumbering as necessary.

By BOAL of Polk

H-8009 FILED JANUARY 31, 2006

ADOPTED

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.4)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – Amendment H-8005 to HF 2045

Description

Amendment H-8005 to HF 2045 strikes everything after the enacting clause and provides for an income threshold under which a taxpayer age 65 or over would pay no State income tax. The threshold is applied on a net income basis (line 26 of the 2005 Iowa 1040), and is set at \$36,000 (single) and \$48,000 (married). In calculating net income, all pension and Social Security income is included. The amendment also provides for an alternative tax calculation that will allow some of the benefit of the threshold to be received by taxpayers with incomes just over the thresholds.

This fiscal note assumes adoption of a corrective amendment extending the alternative tax calculation to single taxpayers. If a corrective amendment is not adopted to H-8005, the fiscal impact of the amendment will be lower.

Background

Iowa currently exempts the first \$6,000 (single) and \$12,000 (joint) of pension income from taxation. Iowa also exempts 50.0% of Social Security income for all taxpayers. The remaining 50.0% is exempt for taxpayers with total income of less than \$25,000 (single) or \$32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and social security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The income tax threshold provided in Amendment H-8005 for taxpayers aged 65 and over will reduce General Fund Revenue by the following amounts:

- FY 2007: \$29.9 million
- FY 2008: \$70.2 million
- FY 2009: \$73.6 million
- FY 2010: \$75.8 million
- FY 2011: \$76.8 million
- FY 2012: \$78.9 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the income tax threshold is projected to continue to increase in years beyond FY 2012.

HOUSE FILE 2045
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 502)

(As Amended and Passed by the House January 31, 2006)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

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

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

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8 House Amendments _____

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HF 2045

mg/es/25

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

3 NEW SUBSECTION. 2A. However, the tax shall not be imposed
4 on a resident or nonresident who is at least sixty-five years
5 old on December 31 of the tax year and whose net income, as
6 defined in section 422.7, is forty-eight thousand dollars or
7 less in the case of married persons filing jointly or filing
8 separately on a combined return, unmarried heads of household,
9 and surviving spouses or thirty-six thousand dollars or less
10 in the case of all other persons; but in the event that the
11 payment of tax under this division would reduce the net income
12 to less than forty-eight thousand dollars or thirty-six
13 thousand dollars as applicable, then the tax shall be reduced
14 to that amount which would result in allowing the taxpayer to
15 retain a net income of forty-eight thousand dollars or thirty-
16 six thousand dollars as applicable. The preceding sentence
17 does not apply to estates or trusts. For the purpose of this
18 subsection, the entire net income, including any part of the
19 net income not allocated to Iowa, shall be taken into account.
20 For purposes of this subsection, net income includes all
21 amounts of pensions or other retirement income received from
22 any source which is not taxable under this division as a
23 result of the government pension exclusions in section 422.7,
24 or any other state law. If the combined net income of a
25 husband and wife exceeds forty-eight thousand dollars, neither
26 of them shall receive the benefit of this subsection, and it
27 is immaterial whether they file a joint return or separate
28 returns. However, if a husband and wife file separate returns
29 and have a combined net income of forty-eight thousand dollars
30 or less, neither spouse shall receive the benefit of this
31 paragraph, if one spouse has a net operating loss and elects
32 to carry back or carry forward the loss as provided in section
33 422.9, subsection 3. A person who is claimed as a dependent
34 by another person as defined in section 422.12 shall not
35 receive the benefit of this subsection if the person claiming

1 the dependent has net income exceeding forty-eight thousand
2 dollars or thirty-six thousand dollars as applicable or the
3 person claiming the dependent and the person's spouse have
4 combined net income exceeding forty-eight thousand dollars or
5 thirty-six thousand dollars as applicable.

6 In addition, if the married persons', filing jointly or
7 filing separately on a combined return, unmarried head of
8 household's, or surviving spouse's net income exceeds forty-
9 eight thousand dollars, the regular tax imposed under this
10 division shall be the lesser of the maximum state individual
11 income tax rate times the portion of the net income in excess
12 of forty-eight thousand dollars or the regular tax liability
13 computed without regard to this sentence. Taxpayers electing
14 to file separately shall compute the alternate tax described
15 in this paragraph using the total net income of the husband
16 and wife. The alternate tax described in this paragraph does
17 not apply if one spouse elects to carry back or carry forward
18 the loss as provided in section 422.9, subsection 3.

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

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

24 7. In addition to the other taxes imposed by this section,
25 a tax is imposed on the amount of a lump sum distribution for
26 which the taxpayer has elected under section 402(e) of the
27 Internal Revenue Code to be separately taxed for federal
28 income tax purposes for the tax year. The rate of tax is
29 equal to twenty-five percent of the separate federal tax
30 imposed on the amount of the lump sum distribution. A
31 nonresident is liable for this tax only on that portion of the
32 lump sum distribution allocable to Iowa. The total amount of
33 the lump sum distribution subject to separate federal tax
34 shall be included in net income for purposes of determining
35 eligibility under ~~the-thirteen-thousand-five-hundred-dollar-or~~

1 ~~less-or-nine-thousand-dollar-or-less-exclusion,--as-applicable~~
2 subsections 2 and 2A.

3 Sec. 3. Section 422.7, subsection 13, Code Supplement
4 2005, is amended to read as follows:

5 13. a. Subtract, to the extent included, the amount of
6 additional social security benefits taxable under the Internal
7 Revenue Code for tax years beginning on or after January 1,
8 1994, but before January 1, 2011. The amount of social
9 security benefits taxable as provided in section 86 of the
10 Internal Revenue Code, as amended up to and including January
11 1, 1993, continues to apply for state income tax purposes for
12 tax years beginning on or after January 1, 1994, but before
13 January 1, 2011.

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

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

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

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

30 c. Married taxpayers, who file a joint federal income tax
31 return and who elect to file separate returns or who elect
32 separate filing on a combined return for state income tax
33 purposes, shall allocate between the spouses the amount of
34 benefits subtracted under paragraphs "a" and "b" from net
35 income in the ratio of the social security benefits received

1 by each spouse to the total of these benefits received by both
2 spouses.

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

7 Sec. 4. Section 422.7, subsection 31, Code Supplement
8 2005, is amended to read as follows:

9 31. a. For a person who is disabled, or is fifty-five
10 years of age or older, or is the surviving spouse of an
11 individual or a survivor having an insurable interest in an
12 individual who would have qualified for the exemption under
13 this subsection for the tax year, subtract, to the extent
14 included, the total amount of a governmental or other pension
15 or retirement pay, including, but not limited to, defined
16 benefit or defined contribution plans, annuities, individual
17 retirement accounts, plans maintained or contributed to by an
18 employer, or maintained or contributed to by a self-employed
19 person as an employer, and deferred compensation plans or any
20 earnings attributable to the deferred compensation plans, up
21 to a maximum of six thousand dollars for a person, other than
22 a husband or wife, who files a separate state income tax
23 return and up to a maximum of twelve thousand dollars for a
24 husband and wife who file a joint state income tax return.
25 However, a surviving spouse who is not disabled or fifty-five
26 years of age or older can only exclude the amount of pension
27 or retirement pay received as a result of the death of the
28 other spouse. A husband and wife filing separate state income
29 tax returns or separately on a combined state return are
30 allowed a combined maximum exclusion under this subsection of
31 up to twelve thousand dollars. The twelve thousand dollar
32 exclusion shall be allocated to the husband or wife in the
33 proportion that each spouse's respective pension and
34 retirement pay received bears to total combined pension and
35 retirement pay received.

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

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

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

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

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

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

26 Sec. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. The
27 sections of this Act enacting section 422.5, subsection 2A,
28 and amending section 422.5, subsection 7, take effect January
29 1, 2008, and apply to tax years beginning on or after that
30 date. The sections of this Act amending section 422.7,
31 subsections 13 and 31, take effect January 1, 2007, and apply
32 to tax years beginning on or after that date.

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**EIGHTY FIRST GENERAL ASSEMBLY
2006 REGULAR SESSION
DAILY
SENATE CLIP SHEET**

FEBRUARY 9, 2006
**Fiscal Services Division
Legislative Services Agency
Fiscal Note**

HF 2045 - Social Security & Pension Income Tax Phase-out (LSB 5621 HV.5)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – As Amended and Passed by the House

Description

House File 2045 as amended and passed by the House provides for a five-year phase-out of income tax on all currently taxable pension and Social Security income. The phase-out (20.0% per year) starts with tax year 2007. Pension and Social Security income would be completely tax exempt beginning with tax year 2011.

The Bill as amended also provides for an income threshold under which a taxpayer aged 65 and over would pay no State income tax. The threshold is applied on a net income basis (line 26 of the 2005 Iowa 1040) and is set at \$36,000 (single) and \$48,000 (married). In calculating net income for the threshold, all otherwise-exempt pension and Social Security income is included. The Bill as amended also provides for an alternative tax calculation that will allow some of the benefit of the threshold to be received by taxpayers with incomes just over the thresholds. This provision is effective beginning with tax year 2008.

Background

Iowa currently excludes the first \$6,000 (single) and \$12,000 (joint) of pension income from taxation. Iowa also excludes 50.0% of Social Security income for all taxpayers. The remaining 50.0% is excluded for taxpayers with total income of less than \$25,000 (single) or \$32,000 (joint). For taxpayers with sufficient income, up to 50.0% of Social Security income is taxable by Iowa.

Pension income includes traditional employer pensions as well as retirement annuity disbursements from Individual Retirement Accounts (IRA's), and deferred compensation plans such as a 401(k).

Assumptions

This estimate was developed by the Department of Revenue based on actual tax returns of Iowa residents from tax year 2003. To age the information from tax year 2003 forward, the Department of Revenue utilized a trend analysis of the growth in taxable pension and Social Security income, growth in other forms of income, and the growth in the retirement-age population. The results are first calculated on a tax-year basis, and then converted to a fiscal-year basis by distributing the revenue changes among the categories of personal income tax (withholding, estimate payments, payments with returns, and refunds).

Fiscal Impact

The new income threshold for taxpayers age 65 or over and the phase-out of income tax on all currently-taxable pension and Social Security income together are projected to reduce net General Fund revenue by the following amounts:

- FY 2007: \$ 18.1 million
- FY 2008: \$ 84.8 million
- FY 2009: \$156.8 million
- FY 2010: \$188.1 million
- FY 2011: \$210.5 million
- FY 2012: \$226.7 million

As a greater percentage of the Iowa population reaches retirement age and as relatively new sources of pension income continue to mature (Individual Retirement Accounts, 401(k) plans, annuities, etc.), the value of the total exemption is projected to continue to increase in years beyond FY 2012.

Since HF 2045 shields presently taxable income from the Iowa personal income tax, the Bill will also lower the amount of money collected through the local option income surtax. The surtax is calculated as a percentage of State income tax liability. Revenue from the surtax is distributed to school districts implementing the tax.

Approximately 285 Iowa school districts currently have an income surtax. Statewide, the surtax raises an amount equal to approximately 3.0% of total net state income tax collections (\$68.6 million in FY 2005). Applying that percentage to the projected tax reductions listed above provides the following additional reductions in income taxes owed by taxpayers benefiting from the exclusions provided in the Bill.

- FY 2007: \$0.5 million
- FY 2008: \$2.5 million
- FY 2009: \$4.7 million
- FY 2010: \$5.6 million
- FY 2011: \$6.3 million
- FY 2012: \$6.8 million

Source

Department of Revenue

/s/ Holly M. Lyons

February 7, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Boal, ch
Huser
Shoultz
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HSB 502

WAYS AND MEANS

Succeeded By
SF / HF

Succeeded By
SF / HF 2045

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON VAN FOSSEN)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act phasing out the state income tax on social security
2 benefits and on pension and retirement income and including
3 effective and applicability date provisions.

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

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FILE
2008

1 Section 1. Section 422.7, subsection 13, Code Supplement
2 2005, is amended to read as follows:

3 13. a. Subtract, to the extent included, the amount of
4 additional social security benefits taxable under the Internal
5 Revenue Code for tax years beginning on or after January 1,
6 1994, but before January 1, 2011. The amount of social
7 security benefits taxable as provided in section 86 of the
8 Internal Revenue Code, as amended up to and including January
9 1, 1993, continues to apply for state income tax purposes for
10 tax years beginning on or after January 1, 1994, but before
11 January 1, 2011.

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

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

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

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

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

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

5 Sec. 2. Section 422.7, subsection 31, Code Supplement
6 2005, is amended to read as follows:

7 31. a. For a person who is disabled, or is fifty-five
8 years of age or older, or is the surviving spouse of an
9 individual or a survivor having an insurable interest in an
10 individual who would have qualified for the exemption under
11 this subsection for the tax year, subtract, to the extent
12 included, the total amount of a governmental or other pension
13 or retirement pay, including, but not limited to, defined
14 benefit or defined contribution plans, annuities, individual
15 retirement accounts, plans maintained or contributed to by an
16 employer, or maintained or contributed to by a self-employed
17 person as an employer, and deferred compensation plans or any
18 earnings attributable to the deferred compensation plans, up
19 to a maximum of six thousand dollars for a person, other than
20 a husband or wife, who files a separate state income tax
21 return and up to a maximum of twelve thousand dollars for a
22 husband and wife who file a joint state income tax return.
23 However, a surviving spouse who is not disabled or fifty-five
24 years of age or older can only exclude the amount of pension
25 or retirement pay received as a result of the death of the
26 other spouse. A husband and wife filing separate state income
27 tax returns or separately on a combined state return are
28 allowed a combined maximum exclusion under this subsection of
29 up to twelve thousand dollars. The twelve thousand dollar
30 exclusion shall be allocated to the husband or wife in the
31 proportion that each spouse's respective pension and
32 retirement pay received bears to total combined pension and
33 retirement pay received.

34 b. For the tax year beginning January 1, 2007, subtract an
35 amount equal to twenty percent of the income described in

1 paragraph "a" after the exclusion in paragraph "a" is
2 subtracted.

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

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

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

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

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

24 **Sec. 3. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. This**
25 **Act takes effect January 1, 2007, and applies to tax years**
26 **beginning on or after that date.**

27 **EXPLANATION**

28 This bill phases out the state income tax on social
29 security benefits over a five-year period and phases out the
30 state income tax on pension and retirement income over the
31 same five-year period.

32 For the tax year beginning on January 1, 2007, 20 percent
33 of taxable social security benefits are exempted; for the tax
34 year beginning on January 1, 2008, 40 percent of taxable
35 social security benefits are exempted; for the tax year

1 beginning on January 1, 2009, 60 percent of taxable social
2 security benefits are exempted; for the tax year beginning on
3 January 1, 2010, 80 percent of taxable social security
4 benefits are exempted; and for tax years beginning on or after
5 January 1, 2011, 100 percent of social security benefits are
6 exempted from state income taxation.

7 For the tax year beginning January 1, 2007, an additional
8 20 percent of pension or retirement income is exempted after
9 the \$6,000 (for single filers) or \$12,000 (for married filers)
10 is subtracted. For the tax year beginning January 1, 2008, an
11 additional 40 percent is exempted; for the tax year beginning
12 January 1, 2009, an additional 60 percent is exempted; for the
13 tax year beginning January 1, 2010, an additional 80 percent
14 is exempted; and for tax years beginning January 1, 2011, and
15 all subsequent tax years, the total amount of pension and
16 retirement income is exempted from state income taxation.

17 The bill takes effect January 1, 2007, and applies to tax
18 years beginning on or after that date.

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