

MAR 7 2006
WAYS AND MEANS

HOUSE FILE 2669
BY COMMITTEE ON VETERANS
AFFAIRS

(SUCCESSOR TO HF 2308)

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

A BILL FOR

1 An Act exempting military duty and retirement pay received from
2 the federal government by members of the armed forces from the
3 individual income tax and including a retroactive
4 applicability date provision.

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

6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

HF 2669

1 Section 1. Section 422.7, Code Supplement 2005, is amended
2 by adding the following new subsection:

3 NEW SUBSECTION. 45. Subtract, to the extent included,
4 compensation, including retirement benefits, received from the
5 federal government for military service performed in the armed
6 forces, armed forces military reserves, or national guard.

7 Sec. 2. RETROACTIVE APPLICABILITY DATE. This Act applies
8 retroactively to January 1, 2006, for tax years beginning on
9 or after that date.

10 EXPLANATION

11 This bill exempts from income tax compensation, including
12 retirement benefits, received from the federal government for
13 military service in the armed forces, armed forces military
14 reserve, or national guard.

15 The bill applies retroactively to January 1, 2006, for tax
16 years beginning on or after that date.

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2669 – Military Pay & Retirement Tax Exemption (LSB 5098 HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 2669 exempts all compensation for military service and also all military retirement benefits from the State income tax. The Bill is retroactive to January 1, 2006.

Assumptions

1. Iowa resident U.S. military, reserve, and National Guard personnel will receive \$300.0 million in taxable compensation for military service in calendar year (CY) 2006 and \$275.0 million in CY 2007 and beyond.
2. Iowa resident retired U.S. military, reserve, and National Guard personnel will receive \$134.6 million in military pension benefits in CY 2006.
3. Iowa's current-law pension exclusion shields an average of 20.0% of military pension income from Iowa income tax.
4. Active military and retirement pay will increase by the rate of inflation.
5. The average Iowa income tax rate on currently serving military compensation is 4.5% and the average tax rate for retirement income is 3.5% for CY 2006. For future years, indexation of Iowa tax brackets will reduce the effective rate by the rate of inflation.
6. The statewide average for local option income tax for schools is 3.0% of State income tax liability.
7. The revenue impact for a calendar year will impact the following fiscal year (CY 2006 will impact FY 2007, etc.).

Fiscal Impact

The income tax exclusion included in HF 2669 will reduce State income taxes owed by active and retired military personnel by the following amounts:

- FY 2007 - \$17.2 million
- FY 2008 and future years - \$16.1 million

The exclusion from taxable income will also reduce local option income taxes for schools owed by active and retired military personnel by the following amounts:

- FY 2007 - \$518,000
- FY 2008 and future years - \$484,000

Source

Department of Public Defense, Military Division

/s/ Holly M. Lyons

March 8, 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.
