

MAY 1 2006
WAYS & MEANS CALENDAR

HOUSE FILE 2795
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 780)

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

A BILL FOR

1 An Act relating to individual income tax relief by providing for
2 a senior taxpayer income tax exclusion and the phasing out of
3 the income tax on social security benefits and including
4 effective and applicability date provisions.

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

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HF 2795

HOUSE FILE 2795

H-8626

1 Amend House File 2795 as follows:
2 1. Title page, by striking lines 1 through 4 and
3 inserting the following: "An Act relating to elderly
4 income tax relief by providing for an elderly taxpayer
5 income tax exclusion and the phasing out of the income
6 tax on social security benefits and including
7 effective and applicability date provisions."

By UPMEYER of Hancock

H-8626 FILED MAY 2, 2006
ADOPTED

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 twenty-four 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 eighteen thousand dollars or less in
10 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 twenty-four thousand dollars or eighteen thousand
13 dollars as applicable, then the tax shall be reduced to that
14 amount which would result in allowing the taxpayer to retain a
15 net income of twenty-four thousand dollars or eighteen
16 thousand dollars as applicable. The preceding sentence does
17 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 twenty-four 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 twenty-four 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 twenty-four thousand
2 dollars or eighteen thousand dollars as applicable or the
3 person claiming the dependent and the person's spouse have
4 combined net income exceeding twenty-four thousand dollars or
5 eighteen 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
9 twenty-four thousand dollars, the regular tax imposed under
10 this division shall be the lesser of the maximum state
11 individual income tax rate times the portion of the net income
12 in excess of twenty-four thousand dollars or the regular tax
13 liability computed without regard to this sentence. Taxpayers
14 electing to file separately shall compute the alternate tax
15 described in this paragraph using the total net income of the
16 husband and wife. The alternate tax described in this
17 paragraph does not apply if one spouse elects to carry back or
18 carry forward the loss as provided in section 422.9,
19 subsection 3.

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

23 This subsection is repealed January 1, 2009.

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

26 NEW SUBSECTION. 2B. However, the tax shall not be imposed
27 on a resident or nonresident who is at least sixty-five years
28 old on December 31 of the tax year and whose net income, as
29 defined in section 422.7, is thirty-two thousand dollars or
30 less in the case of married persons filing jointly or filing
31 separately on a combined return, unmarried heads of household,
32 and surviving spouses or twenty-four thousand dollars or less
33 in the case of all other persons; but in the event that the
34 payment of tax under this division would reduce the net income
35 to less than thirty-two thousand dollars or twenty-four

1 thousand dollars as applicable, then the tax shall be reduced
2 to that amount which would result in allowing the taxpayer to
3 retain a net income of thirty-two thousand dollars or
4 twenty-four thousand dollars as applicable. The preceding
5 sentence does not apply to estates or trusts. For the purpose
6 of this subsection, the entire net income, including any part
7 of the net income not allocated to Iowa, shall be taken into
8 account. For purposes of this subsection, net income includes
9 all amounts of pensions or other retirement income received
10 from any source which is not taxable under this division as a
11 result of the government pension exclusions in section 422.7,
12 or any other state law. If the combined net income of a
13 husband and wife exceeds thirty-two thousand dollars, neither
14 of them shall receive the benefit of this subsection, and it
15 is immaterial whether they file a joint return or separate
16 returns. However, if a husband and wife file separate returns
17 and have a combined net income of thirty-two thousand dollars
18 or less, neither spouse shall receive the benefit of this
19 paragraph, if one spouse has a net operating loss and elects
20 to carry back or carry forward the loss as provided in section
21 422.9, subsection 3. A person who is claimed as a dependent
22 by another person as defined in section 422.12 shall not
23 receive the benefit of this subsection if the person claiming
24 the dependent has net income exceeding thirty-two thousand
25 dollars or twenty-four thousand dollars as applicable or the
26 person claiming the dependent and the person's spouse have
27 combined net income exceeding thirty-two thousand dollars or
28 twenty-four thousand dollars as applicable.

29 In addition, if the married persons', filing jointly or
30 filing separately on a combined return, unmarried head of
31 household's, or surviving spouse's net income exceeds
32 thirty-two thousand dollars, the regular tax imposed under
33 this division shall be the lesser of the maximum state
34 individual income tax rate times the portion of the net income
35 in excess of thirty-two thousand dollars or the regular tax

1 liability computed without regard to this sentence. Taxpayers
2 electing to file separately shall compute the alternate tax
3 described in this paragraph using the total net income of the
4 husband and wife. The alternate tax described in this
5 paragraph does not apply if one spouse elects to carry back or
6 carry forward the loss as provided in section 422.9,
7 subsection 3.

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

11 Sec. 3. Section 422.5, subsection 7, Code 2005, is amended
12 to read as follows:

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

27 Sec. 4. Section 422.7, subsection 13, Code Supplement
28 2005, is amended to read as follows:

29 13. a. Subtract, to the extent included, the amount of
30 additional social security benefits taxable under the Internal
31 Revenue Code for tax years beginning on or after January 1,
32 1994, but before January 1, 2014. The amount of social
33 security benefits taxable as provided in section 86 of the
34 Internal Revenue Code, as amended up to and including January
35 1, 1993, continues to apply for state income tax purposes for

1 tax years beginning on or after January 1, 1994, but before
2 January 1, 2014.

3 b. (1) For tax years beginning in the 2007 calendar year,
4 subtract, to the extent included, thirty-two percent of
5 taxable social security benefits remaining after the
6 subtraction in paragraph "a".

7 (2) For tax years beginning in the 2008 calendar year,
8 subtract, to the extent included, thirty-two percent of
9 taxable social security benefits remaining after the
10 subtraction in paragraph "a".

11 (3) For tax years beginning in the 2009 calendar year,
12 subtract, to the extent included, forty-three percent of
13 taxable social security benefits remaining after the
14 subtraction in paragraph "a".

15 (4) For tax years beginning in the 2010 calendar year,
16 subtract, to the extent included, fifty-five percent of
17 taxable social security benefits remaining after the
18 subtraction in paragraph "a".

19 (5) For tax years beginning in the 2011 calendar year,
20 subtract, to the extent included, sixty-seven percent of
21 taxable social security benefits remaining after the
22 subtraction in paragraph "a".

23 (6) For tax years beginning in the 2012 calendar year,
24 subtract, to the extent included, seventy-seven percent of
25 taxable social security benefits remaining after the
26 subtraction in paragraph "a".

27 (7) For tax years beginning in the 2013 calendar year,
28 subtract, to the extent included, eighty-nine percent of
29 taxable social security benefits remaining after the
30 subtraction in paragraph "a".

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

1 income in the ratio of the social security benefits received
2 by each spouse to the total of these benefits received by both
3 spouses.

4 d. For tax years beginning on or after January 1, 2014,
5 subtract, to the extent included, the amount of social
6 security benefits taxable under section 86 of the Internal
7 Revenue Code.

8 Sec. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

9 1. The section of this Act enacting section 422.5,
10 subsection 2A, takes effect January 1, 2007, and applies to
11 tax years beginning on or after January 1, 2007, but before
12 January 1, 2009.

13 2. The section of this Act enacting section 422.5,
14 subsection 2B, takes effect January 1, 2009, for tax years
15 beginning on or after that date.

16 3. The section of this Act amending section 422.5,
17 subsection 7, takes effect January 1, 2007, for tax years
18 beginning on or after that date.

19 4. The section of this Act amending section 422.7,
20 subsection 13, takes effect January 1, 2007, for tax years
21 beginning on or after that date.

22 EXPLANATION

23 This bill makes changes to the individual income tax that
24 benefits elderly individuals.

25 Code section 422.5, new subsections 2A and 2B, are enacted,
26 which provide that no tax is owed if an individual is 65 years
27 of age and has a net income of less than certain amounts.

28 These amounts are \$24,000 if the individual is married, a head
29 of household, or a surviving spouse, and \$18,000 for all other
30 persons. These amounts apply to the 2007 and 2008 tax years.

31 Beginning with the 2009 tax year, the amounts are increased to
32 \$32,000 and \$24,000, respectively. Code section 422.5,

33 subsection 7, is amended to specify that the total amount of a
34 lump-sum distribution subject to federal tax is to be included
35 in income for purposes of determining eligibility under new

1 subsection 2A or 2B, as applicable.

2 Code section 422.7, subsection 13, relating to the amount
3 of social security benefits taxed, is amended to phase out the
4 taxing of such benefits beginning with the 2007 tax year and
5 ending with the 2014 tax year when the entire amount of social
6 security benefits is exempt from tax.

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Upmeyer, Chair
Van Fossen, J.K.
Shomshor

Succeeded By
OF 2795

HSB 780
WAYS AND MEANS

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 relating to individual income tax relief by providing for
2 a senior taxpayer income tax exclusion and the phasing out of
3 the income tax on social security benefits and including
4 effective and applicability date provisions.

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

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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 twenty-four 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 eighteen thousand dollars or less in
10 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 twenty-four thousand dollars or eighteen thousand
13 dollars as applicable, then the tax shall be reduced to that
14 amount which would result in allowing the taxpayer to retain a
15 net income of twenty-four thousand dollars or eighteen
16 thousand dollars as applicable. The preceding sentence does
17 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 twenty-four 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 twenty-four 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 twenty-four thousand
2 dollars or eighteen thousand dollars as applicable or the
3 person claiming the dependent and the person's spouse have
4 combined net income exceeding twenty-four thousand dollars or
5 eighteen 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
9 twenty-four thousand dollars, the regular tax imposed under
10 this division shall be the lesser of the maximum state
11 individual income tax rate times the portion of the net income
12 in excess of twenty-four thousand dollars or the regular tax
13 liability computed without regard to this sentence. Taxpayers
14 electing to file separately shall compute the alternate tax
15 described in this paragraph using the total net income of the
16 husband and wife. The alternate tax described in this
17 paragraph does not apply if one spouse elects to carry back or
18 carry forward the loss as provided in section 422.9,
19 subsection 3.

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

23 This subsection is repealed January 1, 2009.

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

26 NEW SUBSECTION. 2B. However, the tax shall not be imposed
27 on a resident or nonresident who is at least sixty-five years
28 old on December 31 of the tax year and whose net income, as
29 defined in section 422.7, is thirty-two thousand dollars or
30 less in the case of married persons filing jointly or filing
31 separately on a combined return, unmarried heads of household,
32 and surviving spouses or twenty-four thousand dollars or less
33 in the case of all other persons; but in the event that the
34 payment of tax under this division would reduce the net income
35 to less than thirty-two thousand dollars or twenty-four

1 thousand dollars as applicable, then the tax shall be reduced
2 to that amount which would result in allowing the taxpayer to
3 retain a net income of thirty-two thousand dollars or
4 twenty-four thousand dollars as applicable. The preceding
5 sentence does not apply to estates or trusts. For the purpose
6 of this subsection, the entire net income, including any part
7 of the net income not allocated to Iowa, shall be taken into
8 account. For purposes of this subsection, net income includes
9 all amounts of pensions or other retirement income received
10 from any source which is not taxable under this division as a
11 result of the government pension exclusions in section 422.7,
12 or any other state law. If the combined net income of a
13 husband and wife exceeds thirty-two thousand dollars, neither
14 of them shall receive the benefit of this subsection, and it
15 is immaterial whether they file a joint return or separate
16 returns. However, if a husband and wife file separate returns
17 and have a combined net income of thirty-two thousand dollars
18 or less, neither spouse shall receive the benefit of this
19 paragraph, if one spouse has a net operating loss and elects
20 to carry back or carry forward the loss as provided in section
21 422.9, subsection 3. A person who is claimed as a dependent
22 by another person as defined in section 422.12 shall not
23 receive the benefit of this subsection if the person claiming
24 the dependent has net income exceeding thirty-two thousand
25 dollars or twenty-four thousand dollars as applicable or the
26 person claiming the dependent and the person's spouse have
27 combined net income exceeding thirty-two thousand dollars or
28 twenty-four thousand dollars as applicable.

29 In addition, if the married persons', filing jointly or
30 filing separately on a combined return, unmarried head of
31 household's, or surviving spouse's net income exceeds
32 thirty-two thousand dollars, the regular tax imposed under
33 this division shall be the lesser of the maximum state
34 individual income tax rate times the portion of the net income
35 in excess of thirty-two thousand dollars or the regular tax

1 liability computed without regard to this sentence. Taxpayers
2 electing to file separately shall compute the alternate tax
3 described in this paragraph using the total net income of the
4 husband and wife. The alternate tax described in this
5 paragraph does not apply if one spouse elects to carry back or
6 carry forward the loss as provided in section 422.9,
7 subsection 3.

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

11 Sec. 3. Section 422.5, subsection 7, Code 2005, is amended
12 to read as follows:

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

27 Sec. 4. Section 422.7, subsection 13, Code Supplement
28 2005, is amended to read as follows:

29 13. a. Subtract, to the extent included, the amount of
30 additional social security benefits taxable under the Internal
31 Revenue Code for tax years beginning on or after January 1,
32 1994, but before January 1, 2014. The amount of social
33 security benefits taxable as provided in section 86 of the
34 Internal Revenue Code, as amended up to and including January
35 1, 1993, continues to apply for state income tax purposes for

1 tax years beginning on or after January 1, 1994, but before
2 January 1, 2014.

3 b. (1) For tax years beginning in the 2007 calendar year,
4 subtract, to the extent included, thirty-two percent of
5 taxable social security benefits remaining after the
6 subtraction in paragraph "a".

7 (2) For tax years beginning in the 2008 calendar year,
8 subtract, to the extent included, thirty-two percent of
9 taxable social security benefits remaining after the
10 subtraction in paragraph "a".

11 (3) For tax years beginning in the 2009 calendar year,
12 subtract, to the extent included, forty-three percent of
13 taxable social security benefits remaining after the
14 subtraction in paragraph "a".

15 (4) For tax years beginning in the 2010 calendar year,
16 subtract, to the extent included, fifty-five percent of
17 taxable social security benefits remaining after the
18 subtraction in paragraph "a".

19 (5) For tax years beginning in the 2011 calendar year,
20 subtract, to the extent included, sixty-seven percent of
21 taxable social security benefits remaining after the
22 subtraction in paragraph "a".

23 (6) For tax years beginning in the 2012 calendar year,
24 subtract, to the extent included, seventy-seven percent of
25 taxable social security benefits remaining after the
26 subtraction in paragraph "a".

27 (7) For tax years beginning in the 2013 calendar year,
28 subtract, to the extent included, eighty-nine percent of
29 taxable social security benefits remaining after the
30 subtraction in paragraph "a".

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

1 income in the ratio of the social security benefits received
2 by each spouse to the total of these benefits received by both
3 spouses.

4 d. For tax years beginning on or after January 1, 2014,
5 subtract, to the extent included, the amount of social
6 security benefits taxable under section 86 of the Internal
7 Revenue Code.

8 Sec. 5. EFFECTIVE AND APPLICABILITY DATE PROVISIONS.

9 1. The section of this Act enacting section 422.5,
10 subsection 2A, takes effect January 1, 2007, and applies to
11 tax years beginning on or after January 1, 2007, but before
12 January 1, 2009.

13 2. The section of this Act enacting section 422.5,
14 subsection 2B, takes effect January 1, 2009, for tax years
15 beginning on or after that date.

16 3. The section of this Act amending section 422.5,
17 subsection 7, takes effect January 1, 2007, for tax years
18 beginning on or after that date.

19 4. The section of this Act amending section 422.7,
20 subsection 13, takes effect January 1, 2007, for tax years
21 beginning on or after that date.

22 EXPLANATION

23 This bill makes changes to the individual income tax that
24 benefits elderly individuals.

25 Code section 422.5, new subsections 2A and 2B, are enacted,
26 which provide that no tax is owed if an individual is 65 years
27 of age and has a net income of less than certain amounts.
28 These amounts are \$24,000 if the individual is married, a head
29 of household, or a surviving spouse, and \$18,000 for all other
30 persons. These amounts apply to the 2007 and 2008 tax years.
31 Beginning with the 2009 tax year, the amounts are increased to
32 \$32,000 and \$24,000, respectively. Code section 422.5,
33 subsection 7, is amended to specify that the total amount of a
34 lump-sum distribution subject to federal tax is to be included
35 in income for purposes of determining eligibility under new

1 subsection 2A or 2B, as applicable.

2 Code section 422.7, subsection 13, relating to the amount
3 of social security benefits taxed, is amended to phase out the
4 taxing of such benefits beginning with the 2007 tax year and
5 ending with the 2014 tax year when the entire amount of social
6 security benefits is exempt from tax.

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