

44A : 2001
WAYS AND MEANS

HOUSE FILE 2
BY RANTS, VAN FOSSEN, HORBACH,
GIPP, HANSEN, FINCH, DE BOEF,
RAECKER, REKOW, KETTERING, ELGIN,
RAYHONS, HOFFMAN, BROERS, DRAKE,
ALONS, BOAL, KLEMME, TYMESON,
SHEY, TYRRELL, and HAHN

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

A BILL FOR

1 An Act phasing out the tax on social security benefits under the
2 state individual income tax and including a retroactive
3 applicability date provision.

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

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1 Section 1. Section 422.7, subsection 13, Code 2001, is
2 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, 2003. 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, 2003.

12 b. Subtract, to the extent included after the subtraction
13 in paragraph "a", the following:

14 (1) For tax years beginning in the 2001 calendar year,
15 one-third of taxable social security benefits received.

16 (2) For tax years beginning in the 2002 calendar year,
17 two-thirds of taxable social security benefits received.

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

26 d. Subtract, to the extent included, the amount of social
27 security benefits taxable under section 86 of the Internal
28 Revenue Code for tax years beginning on or after January 1,
29 2003.

30 Sec. 2. APPLICABILITY DATE. This Act applies
31 retroactively to January 1, 2001, for tax years beginning on
32 or after that date.

33 EXPLANATION

34 This bill exempts from the state individual income tax all
35 social security benefits received by the taxpayer for tax

1 years beginning on or after January 1, 2003. Prior to this
2 date, the tax on social security benefits is phased out. One-
3 third is exempt for tax years beginning in the 2001 calendar
4 year, and two-thirds are exempt for tax years beginning in the
5 2002 calendar year. The bill applies retroactively to January
6 1, 2001, for tax years beginning on or after that date.

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H-1013

1 Amend House File 2 as follows:

2 1. Page 1, by striking lines 3 through 29 and
3 inserting the following:
4 "13. Subtract, to the extent included, the amount
5 of additional social security benefits taxable under
6 the Internal Revenue Code for tax years beginning on
7 or after January 1, 1994. The amount of social
8 security benefits taxable as provided in section 86 of
9 the Internal Revenue Code, as amended up to and
10 including January 1, 1993, continues to apply for
11 state income tax purposes for tax years beginning on
12 or after January 1, 1994, except that the base amounts
13 used in that section shall be forty thousand dollars
14 for married taxpayers filing jointly, zero dollars for
15 a married taxpayer who does not file jointly and does
16 not live apart from the taxpayer's spouse at all times
17 during the tax year, and thirty-one thousand for all
18 other taxpayers. Married taxpayers, who file a joint
19 federal income tax return and who elect to file
20 separate returns or who elect separate filing on a
21 combined return for state income tax purposes, shall
22 allocate between the spouses the amount of benefits
23 subtracted from net income in the ratio of the social
24 security benefits received by each spouse to the total
25 of these benefits received by both spouses."
26 2. Title page, line 1, by striking the words
27 "phasing out" and inserting the following: "relating
28 to".

By OSTERHAUS of Jackson

H-1013 FILED JANUARY 18, 2001

**HOUSE FILE 2
FISCAL NOTE**

A fiscal note for House File 2 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 2 exempts social security income from the State individual income tax. The exemption is phased-in over three tax years, beginning with tax year 2001.

ASSUMPTIONS

1. Under current law, Iowa receives \$47.0 million in income tax revenue due to the taxation of a portion of social security benefits.
2. Under current law, income tax receipts raised by the taxation of social security benefits will increase by 7.5% per year.

FISCAL IMPACT

The social security income tax exemption in Senate File 20 will reduce General Fund revenues by the following amounts:

\$15.0 million -- FY 2002
\$32.5 million -- FY 2003
\$53.0 million -- FY 2004 and beyond

In addition, the exemption of all social security income from taxation will impact schools by reducing the amount of money remitted by the local option school income surtax. The impact is estimated to reach \$1.1 million per year across all school districts by FY 2004.

This fiscal impact does not include an estimate of the effect of federal income tax deductibility. Since the federal government allows filers who itemize deductions to deduct State taxes paid from taxable income, federal taxes will go up for many of those who benefit from the exemption in House File 2. Iowa allows filers to deduct federal taxes from their State taxable income, so the increased federal taxes will reduce State income taxes paid by the persons benefiting from the exemption. The fiscal impact would depend on the percentage of filers who itemize and the marginal federal and state tax rates of those filers.

SOURCE

Department of Revenue and Finance

(LSB 1577yh, JWR)

HOUSE FILE 2**H-1022**

1 Amend House File 2 as follows:

2 1. Page 1, by striking lines 2 through 29 and
3 inserting the following: "amended by striking the
4 subsection and inserting in lieu thereof the
5 following:

6 13. a. For a person who is disabled, or is fifty-
7 five years of age or older, or is the surviving spouse
8 of an individual or a survivor having an insurable
9 interest in an individual who would have qualified for
10 the exemption under this paragraph for the tax year,
11 subtract, to the extent included, the total amount of
12 a governmental or other pension or retirement pay,
13 including, but not limited to, defined benefit or
14 defined contribution plans, annuities, individual
15 retirement accounts, plans maintained or contributed
16 to by an employer, or maintained or contributed to by
17 a self-employed person as an employer, and deferred
18 compensation plans or any earnings attributable to the
19 deferred compensation plans, up to a maximum of eight
20 thousand five hundred dollars for tax years beginning
21 in the 2001 calendar year, twelve thousand dollars for
22 tax years beginning in the 2002 calendar year, and the
23 total amount of pension included for tax years
24 beginning on or after January 1, 2003, for a person,
25 other than a husband or wife, who files a separate
26 state income tax return and up to a maximum of
27 seventeen thousand dollars for tax years beginning in
28 the 2001 calendar year, twenty-four thousand dollars
29 for tax years beginning in the 2002 calendar year, and
30 the total amount of pension included for tax years
31 beginning on or after January 1, 2003, for a husband
32 and wife who file a joint state income tax return.
33 However, a surviving spouse who is not disabled or
34 fifty-five years of age or older can only exclude the
35 amount of pension or retirement pay received as a
36 result of the death of the other spouse. A husband
37 and wife filing separate state income tax returns or
38 separately on a combined state return are allowed a
39 combined maximum exclusion under this paragraph of up
40 to seventeen thousand dollars for tax years beginning
41 in the 2001 calendar year, and twenty-four thousand
42 dollars for tax years beginning in the 2002 calendar
43 year. The seventeen thousand dollar or twenty-four
44 thousand dollar exclusion, as applicable, shall be
45 allocated to the husband or wife in the proportion
46 that each spouse's respective pension and retirement
47 pay received bears to total combined pension and
48 retirement pay received.

49 b. Subtract, to the extent included, the amount of
50 additional social security benefits taxable under the

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1 Internal Revenue Code for tax years beginning on or
2 after January 1, 1994, but before January 1, 2006.
3 The amount of social security benefits taxable as
4 provided in section 86 of the Internal Revenue Code,
5 as amended up to and including January 1, 1993,
6 continues to apply for state income tax purposes for
7 tax years beginning on or after January 1, 1994, but
8 before January 1, 2006.

9 c. Subtract, to the extent included after the
10 subtraction in paragraph "b", the following:

11 (1) For tax years beginning in the 2004 calendar
12 year, one-third of taxable social security benefits
13 received.

14 (2) For tax years beginning in the 2005 calendar
15 year, two-thirds of taxable social security benefits
16 received.

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

26 e. Subtract, to the extent included, the amount of
27 social security benefits taxable under section 86 of
28 the Internal Revenue Code for tax years beginning on
29 or after January 1, 2006.

30 Sec. ____ . Section 422.7, subsection 31, Code 2001,
31 is amended by striking the subsection."

32 2. Title page, line 1, by striking the words
33 "social security" and inserting the following:
34 "pension".

By MILLAGE of Scott

H-1022 FILED JANUARY 24, 2001

H-1028

1 Amend House File 2 as follows:

2 1. Page 1, line 6, by striking the figure "2003"
3 and inserting the following: "2004".

4 2. Page 1, line 11, by striking the figure "2003"
5 and inserting the following: "2004".

6 3. Page 1, line 15, by striking the word "one-
7 third" and inserting the following: "one-fourth".

8 4. Page 1, line 17, by striking the word "two-
9 thirds" and inserting the following: "two-fourths".

10 5. Page 1, by inserting after line 17 the
11 following:

12 "(3) For tax years beginning in the 2003 calendar
13 year, three-fourths of taxable social security
14 benefits received."

15 6. Page 1, line 29, by striking the figure "2003"
16 and inserting the following: "2004".

By SHEY of Linn

H-1028 FILED JANUARY 26, 2001

HOUSE FILE 2

H-1035

1 Amend House File 2 as follows:

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

4 "Section 1. Section 25B.7, subsection 2, paragraph
5 c, Code 2001, is amended to read as follows:

6 c. Military service property tax credit and
7 exemption pursuant to chapter 426A, ~~to the extent of~~
8 ~~six dollars and ninety two cents per thousand dollars~~
9 ~~of assessed value of the exempt property."~~

10 2. Page 1, line 6, by striking the figure "2003"
11 and inserting the following: "2004".

12 3. Page 1, line 11, by striking the figure "2003"
13 and inserting the following: "2004".

14 4. Page 1, line 14, by striking the figure "2001"
15 and inserting the following: "2002".

16 5. Page 1, line 16, by striking the figure "2002"
17 and inserting the following: "2003".

18 6. Page 1, line 29, by striking the figure "2003"
19 and inserting the following: "2004".

20 7. Page 1, by inserting after line 29 the
21 following:

22 "Sec. ____ . Section 426A.2, Code 2001, is amended
23 to read as follows:

24 426A.2 MILITARY SERVICE TAX CREDIT.

25 The moneys shall be apportioned each year so as to
26 replace all or a portion of the tax which would be due
27 on property eligible for military service tax
28 exemption in the state, if the property were subject
29 to taxation, ~~the amount of the credit to be not more~~
30 ~~than six dollars and ninety two cents per thousand~~
31 ~~dollars of assessed value of property which would be~~
32 ~~subject to the tax, except for the military service~~
33 ~~tax exemption.~~

34 Sec. ____ . Section 426A.5, Code 2001, is amended to
35 read as follows:

36 426A.5 PROPORTIONATE SHARES TO DISTRICTS.

37 The amount of credits received under this chapter
38 shall then be apportioned by each county treasurer to
39 the several taxing districts in the same manner as
40 though the amount of credit had been paid by the owner
41 of the property receiving the credit. Each taxing
42 district shall receive its proportionate share of the
43 military service tax credit allowed on each ~~and every~~
44 tax exemption allowed in such the taxing district, ~~in~~
45 ~~the proportion that the levy made by such taxing~~
46 ~~district upon general property bears to the total levy~~
47 ~~upon all property subject to general property taxation~~
48 ~~by all taxing districts imposing a general property~~
49 ~~tax in such taxing district~~ based upon the amount of
50 property taxes which would be due on the property

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1 receiving the credit, if the property were subject to
2 taxation."

3 8. Page 1, by striking line 30 and inserting the
4 following:

5 "Sec. ____ . EFFECTIVE AND APPLICABILITY DATE. This
6 Act, being deemed of immediate importance, takes
7 effect upon enactment. The sections of this Act
8 amending sections 25B.7, 426A.2, and 426A.5 apply to
9 the military service property tax exemption allowed
10 for property taxes due and payable during fiscal years
11 beginning on or after July 1, 2001. The section of
12 this Act amending section 422.7 applies".

13 9. Title page, line 1, by inserting after the
14 word "Act" the following: "increasing the state
15 reimbursement for the military service property tax
16 exemption and".

17 10. Title page, line 2, by striking the words "a
18 retroactive" and inserting the following: "an
19 effective and".

By WARNSTADT of Woodbury

H-1035 FILED JANUARY 30, 2001

HOUSE FILE 2

H-1036

1 Amend House File 2 as follows:

2 1. Page 1, line 6, by striking the figure "2003"
3 and inserting the following: "2004".

4 2. Page 1, line 11, by striking the figure "2003"
5 and inserting the following: "2004".

6 3. Page 1, line 14, by striking the figure "2001"
7 and inserting the following: "2002".

8 4. Page 1, line 16, by striking the figure "2002"
9 and inserting the following: "2003".

10 5. Page 1, line 29, by striking the figure "2003"
11 and inserting the following: "2004".

12 6. Page 1, by inserting after line 29 the
13 following:

14 "Sec. ____ . Section 422.73, Code 2001, is amended
15 by adding the following new subsection:

16 NEW SUBSECTION. 4. Notwithstanding subsection 2,
17 a claim for refund of individual income tax paid for
18 any tax year beginning on or after January 1, 1985,
19 and before January 1, 1989, is considered timely if
20 filed with the department on or before October 31,
21 2001, if the taxpayer's claim is the result of the
22 unconstitutional taxation of federal pension benefits
23 based upon the decision in Davis v. Michigan
24 Department of Treasury, 489 U.S. 803, 109 S. Ct. 1500
25 (1989).

26 A taxpayer entitled to a refund of tax paid under
27 this subsection shall receive an amount equal to one
28 hundred percent of the refund without interest. The
29 claim for refund must be filed separately from any
30 income tax return and a refund shall not be allowed as
31 a credit for income taxes owed. A claim must be filed
32 between the effective date of this Act and October 31,
33 2001. An extension for filing shall not be allowed
34 and claims disallowed on the basis of timeliness shall
35 not be allowed upon appeal to any other state agency
36 notwithstanding any other provision of law.

37 The claim for refund must be made on claim forms to
38 be made available by the department. In order for a
39 taxpayer to have a valid refund claim, the taxpayer
40 must supply legible copies of documents the director
41 deems necessary to show entitlement to the refund,
42 including but not limited to income tax forms and W-2P
43 forms, which will establish the state income tax that
44 was paid on the federal pension benefits for the tax
45 years in question. The burden of proof is on the
46 taxpayer to show that the claim for refund is valid.
47 Estates are not entitled to file a claim for refund
48 under this subsection, except a spouse of a deceased
49 taxpayer who was the spouse of the taxpayer when the
50 unconstitutional tax was imposed may file a claim for

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1 refund without reopening the deceased taxpayer's
2 estate. If a taxpayer has filed a claim under this
3 subsection and subsequently dies before receipt of the
4 refund, the taxpayer's estate is entitled to receipt
5 of any valid refund claim.

6 The department shall make a reasonable attempt to
7 notify individuals who are entitled to a refund under
8 this subsection".

9 7. Page 1, by striking line 30 and inserting the
10 following: "Sec. ____ . EFFECTIVE AND APPLICABILITY
11 DATES. This Act, being deemed of immediate
12 importance, takes effect upon enactment. Section 1 of
13 this Act applies".

14 8. Title page, line 1, by inserting after the
15 word "Act" the following "relating to the time and
16 the criteria for filing of claims for refund under the
17 state individual income tax by retired federal
18 employees as a result of the unconstitutional taxation
19 of federal pensions and".

20 9. Title page, line 2, by inserting after the
21 word "including" the following: "an effective date
22 provision and".

By WARNSTADT of Woodbury

H-1036 FILED JANUARY 30, 2001

**HOUSE FILE 2
FISCAL NOTE**

A fiscal note for House File 2 as amended by H-1028 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Amendment H-1028 to House File 2 extends the phased-in exemption of social security income from three years to four years.

ASSUMPTIONS

1. Under current law, Iowa receives \$47.0 million in income tax revenue due to the taxation of a portion of social security benefits.
2. Under current law, income tax receipts raised by the taxation of social security benefits will increase by 7.5% per year.

FISCAL IMPACT

The estimated fiscal impact of House File 2 as amended by H-1028 is as follows:

\$11.8 million -- FY 2002
\$25.3 million -- FY 2003
\$40.7 million -- FY 2004
\$58.4 million -- FY 2005 and beyond

SOURCE

Department of Revenue and Finance

(LSB 1577yh.2, JWR)

FILED JANUARY 30, 2001

BY DENNIS PROUTY, FISCAL DIRECTOR