

SENATE FILE 20

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LUNDBY

Passed Senate, Date \_\_\_\_\_ Passed House, 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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SF 20  
WAYS & MEANS

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 is 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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**SENATE FILE 20  
FISCAL NOTE**

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A fiscal note for **Senate File 20** 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.

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Senate File 20 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 deductability. 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 Senate File 20. 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 1455XS, JWR)

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BY DENNIS PROUTY, FISCAL DIRECTOR