

FILED JAN 23 '01

SENATE FILE 59
BY COMMITTEE ON WAYS and MEANS

(SUCCESSOR TO SF 20)

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 59

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 59
FISCAL NOTE**

A fiscal note for **Senate File 59** 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.

Senate File 59 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 59 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 Senate File 59. 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 1455SV, JWR)

FILED JANUARY 31, 2001

BY DENNIS PROUTY, FISCAL DIRECTOR

S-3005

1 Amend Senate File 59 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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Page 2

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".

By STEVEN D. HANSEN

S-3005 FILED JANUARY 25, 2001