

SENATE FILE 2007
BY LAMBERTI

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

A BILL FOR

1 An Act relating to the exemption from income tax of federal
2 active duty pay of members of the armed forces military
3 reserve and national guard and including a retroactive
4 applicability date provision.

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

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WAYS & MEANS

SF 2007

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 active duty pay received as a member in the armed forces
5 military reserve or national guard serving on federal active
6 duty other than for training.

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.

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EXPLANATION

11 This bill exempts from state income taxation active duty
12 pay for members of the armed forces military reserve and
13 national guard who serve on federal active duty other than for
14 training.

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

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2007 - Income Tax Exemption, Military Active Duty (LSB 5349 XS)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – New
Requested by Senator Jeff Danielson

Description

Senate File 2007 excludes pay received for active military duty from the State income tax. The exclusion applies to members of the armed forces reserve and National Guard. The Bill is retroactive to tax years beginning on or after January 1, 2006.

Assumptions

1. There are 1,200 Iowa National Guard and 465 Iowa Military Reserve personnel on active duty.
2. The National Guard and Military Reserve personnel will be on active duty 12 months of calendar year 2006 and five months of calendar year 2007.
3. Of the active duty National Guard and Military Reserve personnel, 25.0% are residents of other states for tax purposes or are exempt from income tax due to war zone duty.
4. The average monthly pay for FY 2006 will be \$2,800 and increase 3.5% per year.
5. The average income tax rate for active military personnel will be 4.5%.
6. Income tax withholding payments prior to July 1, 2006, will not be impacted.

Fiscal Impact

The income tax exclusion included in SF 2007 will reduce State income taxes owed by active duty military personnel by the following amounts:

- FY 2007 – \$1.9 million
- FY 2008 – \$0.8 million

The exclusion from taxable income will also reduce the local option income surcharge tax. The surcharge is a percentage of Iowa tax liability and equals approximately 3.0% of total State income tax revenue. Revenue from the surcharge is distributed to schools. The surtax reduction is estimated as follows:

- FY 2007 – \$57,000
- FY 2008 – \$24,000

Source

Department of Public Defense, Military Division

/s/ Holly M. Lyons

March 27, 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.
