

FILED JAN 18 2006

WAYS & MEANS

SENATE FILE 2037

BY MILLER

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

A BILL FOR

1 An Act exempting military duty compensation, benefits,
 2 allowances, and retirement pay received from the federal
 3 government by members of the armed forces from the individual
 4 income tax and including a retroactive applicability date
 5 provision.

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

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WAYS & MEANS

SF 2037

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 compensation, allowances, and benefits, including retirement
5 benefits, received from the federal government for military
6 service performed in the armed forces, armed forces military
7 reserves, or national guard.

8 Sec. 2. RETROACTIVE APPLICABILITY DATE. This Act applies
9 retroactively to January 1, 2006, for tax years beginning on
10 or after that date.

11 EXPLANATION

12 This bill exempts from income tax compensation, allowances,
13 and benefits, including retirement benefits, received from the
14 federal government for military service in the armed forces,
15 armed forces military reserve, or national guard.

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

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2037 – Military Pay & Retirement Tax Exemption (LSB 5837 SS)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New
Requested by Senator Jeff Danielson and Senator David Miller

Description

Senate File 2037 exempts all compensation for military service and also all military retirement benefits from the State income tax. The Bill is retroactive to January 1, 2006.

Assumptions

1. Iowa resident U.S. military, reserve, and National Guard personnel will receive \$300.0 million in taxable compensation for military service in calendar year 2006 and \$275.0 million in calendar year (CY) 2007 and beyond.
2. Iowa resident retired U.S. military, reserve, and National Guard personnel will receive \$134.6 million in military pension benefits in CY 2006.
3. Iowa's current-law pension exclusion shields an average of 20.0% of military pension income from Iowa income tax.
4. Active military and retirement pay will increase by the rate of inflation.
5. The average Iowa income tax rate on currently serving military compensation is 4.5% and the average tax rate for retirement income is 3.5% for CY 2006. For future years, indexation of Iowa tax brackets will reduce the effective rate by the rate of inflation.
6. The statewide average for local option income tax for schools is 3.0% of State income tax liability.
7. The revenue impact for a calendar year will impact the following fiscal year (CY 2006 will impact FY 2007, etc.).

Fiscal Impact

The income tax exclusion included in SF 2037 will reduce State income taxes owed by active and retired military personnel by the following amounts:

- FY 2007 - \$17.2 million
- FY 2008 and future years - \$16.1 million

The exclusion from taxable income will also reduce local option income taxes for schools owed by active and retired military personnel by the following amounts:

- FY 2007 - \$518,000
- FY 2008 and future years - \$484,000

Source

Department of Public Defense, Military Division

/s/ Holly M. Lyons

March 6, 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.
