

MEMO# 35258

April 21, 2023

Iowa Clarifies Withholding Rules for Retirement Income Excludable From State Income Tax

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TO: ICI Members

Pension Committee

Pension Operations Advisory Committee SUBJECTS: Pension

Tax RE: Iowa Clarifies Withholding Rules for Retirement Income Excludable From State Income Tax

We recently became aware of a change to Iowa state law that, effective for tax years beginning January 1, 2023 or later, excludes from taxation certain types of retirement income for eligible taxpayers.^[1] Previously retirement income was included in net income for Iowa state income tax purposes, subject to certain exclusions.^[2] A Q&A from the Iowa Department of Revenue is available [here](#).

Retirement income for this purpose includes amounts received from a governmental or other pension or retirement plan, including but not limited to defined benefit or defined contribution plans including SEP, SIMPLE, 401(k), 403(b), 457(b), or ESOP plans; IRAs; and annuity distributions pursuant to Code section 402(a). To be eligible for the exclusion, a taxpayer must be either (1) 55 years of age or older on December 31 of the tax year, (2) disabled, or (3) a surviving spouse or a survivor (child or parent) of an individual who would have qualified for the exclusion from taxable income on the basis of age or disability.

The above provisions were signed into law on March 1, 2022. On Feb. 20, 2023, additional rules were enacted to clarify that state income tax withholding is not required for distributions of retirement income that are not subject to Iowa income tax.^[3] If a plan administrator is aware that Iowa income tax was erroneously withheld from distributions in 2023, they must repay the overwithheld amounts to the recipient by the end of 2023. The guidance from the Department of Revenue provides options for how to correct the erroneous withholding.

David Cohen

Notes

[1] House File 2317, Division VI (signed by the Governor on March 1, 2022) (amending Sections 422.5(3)(a), 422.5(3B)(a), and 422.7(31) of the Iowa Code) , available at <https://www.legis.iowa.gov/docs/publications/LGE/89/HF2317.pdf>. The Iowa Department of Revenue has provided guidance on these changes. See <https://tax.iowa.gov/retirement-income-tax-guidance>.

[2] The Institute's most recent surveys on state tax matters are available at <https://www.ici.org/survey-state-tax>.

[3] Senate File 181, Division III (signed by the Governor on March 1, 2022) (amending Section 422.16(1)(c) of the Iowa Code), available at <https://www.legis.iowa.gov/legislation/BillBook?ga=90&ba=SF181>.

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