



**SF 290** – Income Tax Exemption, Unemployment (LSB2483XS)  
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 Fiscal Note Version – New

**Description**

**Senate File 290** exempts up to \$10,200 in unemployment compensation from the State individual income tax. The Bill is effective upon enactment and the change is effective for tax year (TY) 2020 only.

**Background**

Unemployment compensation is subject to the State income tax as ordinary income. This includes payments received through various special federal programs designed to help maintain income during the COVID-19 pandemic.

**Assumptions**

- It is assumed that the \$10,200 exemption is available for each taxpayer, as opposed to each tax return (married taxpayers could each benefit up to \$10,200).
- The number of taxpayers and associated unemployment compensation payments for calendar year 2020 is provided in the following table. The amount of taxable income that is potentially subject to the proposed tax exemption is shown in the final column.

Iowa CY 2020 Unemployment Compensation Payments			
<u>Unemployment Payment Category</u>	<u>Number of Recipients</u>	<u>Total Payments</u>	<u>Total payments Not Over \$10,200</u>
Not over \$10,200	212,049	\$ 935,748,416	\$ 935,748,416
Over \$10,200	135,712	\$ 2,416,232,210	\$ 1,384,262,400
Total	347,761	\$ 3,351,980,626	\$ 2,320,010,816

- Filing of TY 2020 tax returns has already begun. It will take some time for tax forms, instructions, and programs to be modified. This will result in a percentage of the taxpayers who benefit from this exemption needing to file amended TY 2020 returns. It is assumed that 3.0% of the taxpayers who are eligible for the exemption will not claim the benefit on a TY 2020 traditional or amended tax return.
- Amended returns take time and can be filed well after the due date. It is assumed that 95.0% of taxpayers who claim the exemption will file returns during FY 2021 and 5.0% will file returns in FY 2022.
- The average marginal income tax rates for taxpayers who report unemployment compensation income is assumed to be 5.3%.
- The Statewide average income surtax for schools is assumed to average 3.0%.

**Fiscal Impact**

The proposed exemption for up to \$10,200 in unemployment income received by a taxpayer in TY 2020 is projected to reduce General Fund revenue by \$113.3 million in FY 2021, and \$6.0 million in FY 2022.

The reduction will also reduce the amount of revenue raised through the income surtax for schools by an estimated \$3.4 million in FY 2021, and \$0.2 million in FY 2022.

Since TY 2020 tax returns are currently being accepted by the Department of Revenue, the new exemption for TY 2022 will increase the Department’s administrative expenses related to tax forms, instructions, and programming, as well as the processing of amended tax returns.

**Sources**

Department of Revenue  
Department of Workforce Development

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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