BRIEFINGS

INFORMATION REGARDING RECENT ACTIVITIES

LEGISLATIVE TAX EXPENDITURE COMMITTEE
January 8, 2019
Co-chairperson: Senator Randy Feenstra
Co-chairperson: Representative Lee Hein

Overview. The Legislative Tax Expenditure Committee was established in 2010 pursuant to Iowa Code sections 2.45(5) and 2.48. The committee is required to conduct regular reviews of all tax credit, withholding credit, and revenue division programs. The committee may review any tax expenditure at any time but is required to review specific tax expenditures during specified years. In 2018, the committee was required to review the child and dependent care and early childhood development tax credits, property tax revenue divisions for urban renewal areas, the endow Iowa tax credits, and the redevelopment tax credits available under Iowa Code section 15.293A.

Child and Dependent Care and Early Childhood Development Tax Credits. Mr. John Good, Iowa Department of Revenue (IDR), provided background information and statistical analysis of the Iowa Child and Dependent Care (CDC) Tax Credit and the Iowa Early Childhood Development (ECD) Tax Credit. The CDC Tax Credit is 30 percent to 75 percent of the federal CDC Tax Credit for individuals whose net Iowa income is less than $45,000. The federal CDC Tax Credit is 20 percent to 35 percent of the eligible child care expenses for qualifying children under age 13 or disabled dependents. A CDC or ECD Tax Credit is claimed one time by 51.1 percent of the claimants while 10.5 percent of the claimants take either credit five or more consecutive years. Taxpayers can claim only one of the two Iowa credits in one tax year. Mr. Good explained that tax reform enacted last year (Senate File 2417) will increase the number of households eligible to claim either the CDC or ECD Tax Credit when the starting point for computing Iowa net income changes from federal adjusted gross income to federal taxable income, beginning in tax year 2023 or in a later tax year (trigger year). The increase in the number of claimants eligible for the tax credits is due to the interplay between the new higher federal standard deduction lowering federal taxable income for many Iowans, which will in effect place more Iowans below the Iowa net income threshold limit of $45,000 for claiming either tax credit.

Property Tax Revenue Divisions for Urban Renewal Areas. Mr. Tony Girardi, IDR, provided background information on Iowa's urban renewal law and a description of his ongoing research into the efficacy of tax increment financing (TIF). Mr. Girardi described the use of tax increment financing in other states and noted differences in Iowa's urban renewal law. He stated that 15 states require a TIF district to meet a "but for" test under some circumstances, 32 states (including Iowa) finance TIF through general obligation bonds, and 14 states exclude school districts or allow a school district to opt out of a TIF district. While noting the limited research on tax increment financing, Mr. Girardi assessed the economic effects of TIF through Iowa's urban core-based statistical areas, and provided statewide historical property assessment data and property valuation growth by county data. Mr. Girardi concluded there is no correlation between TIF and economic growth, except for a slight correlation between TIF and industrial concentration, but he also acknowledged the limitations of tax increment financing research. He noted that the size of a metropolitan area and the educational background of the workforce are more predictive of economic growth than TIF.

Ms. Carrie Johnson, Iowa Department of Management (DOM), and Mr. Ted Nellesen, DOM, provided an update on the Annual Urban Renewal Report (AURR). Ms. Johnson and Mr. Nellesen reviewed the data found in the AURR, including but not limited to TIF use by city and county, projects by type and by year, TIF debts by type, annual appropriations to pay off TIF debt, and TIF district ending cash balances.

Redevelopment Tax Credits. Mr. Matt Rassmussen, Iowa Economic Development Authority (IEDA), presented a report to the committee detailing the Brownfield and Grayfield Redevelopment Tax Credit Program which provides an investment tax credit for redevelopment projects in Iowa that meet the definition of either a brownfield or grayfield. Under the program, an owner's equity investment in a grayfield project can receive up to a 12 percent tax credit for a qualifying investment or up to 15 percent if the project meets the requirements of a green development. A brownfield can receive up to a 24 percent tax credit for a qualifying investment or up to 30 percent if the project meets the requirements of a green development. "Qualifying investment" means costs that are directly related to a qualifying redevelopment project and are incurred after the project has been registered and approved by the IEDA Board and only includes the purchase price, the cleanup cost, and the redevelopment costs. Applications for the credits are scored based on financial need, feasibility, and overall quality. Mr. Rasmussen noted that IEDA is considering a rule change that would remove the bonus points awarded upon re-application if an applicant was turned down the previous year. Mr. Rasmussen detailed the application and review process and provided examples of how the program is being used throughout the state.

Mr. Zhong Jin, IDR, provided background information and statistical analysis of the program and discussed other states' tax credit programs. He analyzed the number of redevelopment tax credits claimed by each tax year. Mr. Jin detailed the amount of credit transfers administered by IDR. He noted that a person transferring a credit for a brownfield or grayfield project receives 93 cents on the dollar.

Endow Iowa Tax Credits. Ms. Nichole Hansen, IEDA, described the Endow Iowa Tax Credit Program to the committee, a charitable giving incentive program administered by IEDA. The program was established in 2003 to encourage individuals, businesses, and organizations to make lasting investments in their communities when they establish permanent, endowed funds at an Iowa community foundation. The Endow Iowa Tax Credit is a 25 percent tax credit available to all Iowa taxpayers who make a qualifying charitable contribution. Ms. Hansen stated that the program continues to experience high demand. Currently, only $900,000 of the $6,000,000 of authorized credits remain available for the remainder of 2019. To qualify, gifts must be made to a permanent endowment fund, established for the benefit of an Iowa charitable purpose, at a qualified community foundation. Gifts can be of any size but tax credits granted to a single taxpayer shall not exceed 5 percent of the aggregate amount of tax credits authorized. Ten percent of the aggregate amount of tax credits authorized in a calendar year are reserved for those endowment gifts in amounts of $30,000 or less. Credits are nonrefundable but can be carried forward for up to five years. Iowa's community foundations reported a 6.89 percent growth in permanent endowment assets in 2017.

Ms. Angela Gullickson, IDR, provided background information and statistical analysis of the program. Ms. Gullickson also provided information on similar programs in other states. She noted that only four other states have similar credits. The data provided by Ms. Gullickson included for each year of the program the total amount and number of credits awarded, the range of credit amounts awarded, and the average credit amount. Ms. Gullickson also provided annual foundation donation data, donor demographic information, and information about unclaimed awards by household tax liability.

Tax Credit Update. Ms. Amy Harris, IDR, presented background information about other tax credits that are not required to be reviewed by the Tax Expenditure Committee. She provided information about the Adoption Tax Credit, the Volunteer Firefighter, EMS & Reserve Peace Officer Tax Credit, the Solar Energy System Tax Credit, the Farm to Food Donation Tax Credit, the E15 Plus Gasoline Promotion Tax Credit, the Biodiesel Blended Fuel Tax Credit, the E85 Gasoline Promotion Tax Credit, the School Tuition Organization Tax Credit, the Tuition and Textbook Tax Credit, and the Workforce Housing Tax

Incentive Program. She noted the largest tax credit not required to be reviewed by the committee is the Workforce Housing Tax Incentive Program, and the least utilized tax credit is the Farm to Food Donation Tax Credit.

Public Comment and Committee Discussion. There was no public comment during the public comment portion of the meeting. The committee briefly discussed the presentations made during the meeting and discussed the importance of the committee going forward.

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Internet Site: www.legis.iowa.gov/committees/committee?ga=88&groupID=594