
ISSUE REVIEW

Fiscal Services Division

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515.281.3566

Business Property Tax Credit

ISSUE

The Business Property Tax Credit (BPTC) was created in 2013 Iowa Acts, chapter [123](#) (State and Local Taxation Act).¹ The credit is financed through an annual standing appropriation from the State General Fund of \$125.0 million.² The BPTC pays a portion of the property tax due on qualified properties that are classified through the assessment process as commercial, industrial, or railroad for property tax purposes. The BPTC is administered by the Iowa Department of Revenue, local assessors, and county officials.

CODE AUTHORITY

Iowa Code chapter [426C](#).

BACKGROUND

Property with the classification of commercial, industrial, or railroad (collectively referred to in this document as “business property”) is subject to property tax under Iowa law at 90.0000% of the actual value of the property as determined through the assessment process.³

Through a State General Fund appropriation, the BPTC pays a portion of the property tax that would otherwise be due from the business property owner. The BPTC is designed to ensure that for a qualified business property, a specified maximum amount of each property’s value (referred to in the Code of Iowa and this document as the “initial value”) is taxed at the same percentage of its assessed value as property classified as residential. Since the amount of money available for all properties that qualify for the BPTC is fixed, the initial value changes each year through a calculation performed by the Department of Revenue (DOR). The DOR calculates the initial value for the upcoming year using the assessed value, property rollback percentages, and tax rates for every property that qualifies for the BPTC for the upcoming tax year. The DOR determines the level of the initial value that can be supported given the calculation factors of every qualified property and the amount of money available to finance the BPTC for the upcoming year.

¹ The BPTC was created as part of larger property tax modification legislation that reduced the taxed portion of business property value to 90.0000% (from 100.0000% in most years), transitioned multiresidential property (apartments, nursing homes, etc.) to the same system as residential property, reduced the annual maximum taxable value growth rate for residential and agricultural property, and reduced the taxed value of telecommunications property.

² The standing limited appropriation was initiated beginning with FY 2015. The appropriation was \$50.0 million for FY 2015, \$100.0 million for FY 2016, and the current \$125.0 million annual amount began with FY 2017.

³ The percentage of a property’s assessed value that is subject to property tax is known as the “rollback” for a property class. A lower rollback percentage produces a lower property value subject to property tax.

Qualifications for the BPTC are found in Iowa Code section [426C.3](#), and through the [DOR](#). The [application](#) form is available from the local assessor or the DOR. Once a business property qualifies for the BPTC, reapplication for future fiscal years is not required unless the ownership or qualified use of the property changes.

ANNUAL INITIAL VALUE FACTORS AND CALCULATION

Parcels and Property Units — The BPTC is calculated for each business property using the value of the parcel or in some cases a property “unit” concept. While a qualified property in most cases is a single property parcel, there are instances where a property that is made up of two or more individual parcels that are used for the same business purpose and owned by the same person is treated as a unit for calculation of the BPTC.⁴

Property Tax Rate — The property tax rate is the consolidated property tax levy that applies to the property for the particular tax year. The term “consolidated” means the sum of the tax rates of all government entities that tax the specific property.

Property Rollback Percentages — By law, the property rollback percentage for business property is 90.0000% and the rollback for residential property is established through a formula each tax year by the Department (55.0743% for FY 2021). The BPTC is calculated using the difference between the business property rollback and the residential rollback.

Available BPTC Funding — Iowa Code section [426C.2](#) appropriates \$125.0 million each year to fund the BPTC. Iowa Code section [426C.4\(2\)](#) limits the credit calculation to 98.0% of the funds available for the upcoming year. The funds available include the annual General Fund appropriation, funds remaining from the previous year, and any interest earned on the fund balance. The 98.0% limitation ensures that if any properties are determined to qualify for the BPTC for the upcoming year after calculation of the initial value, funds will be available to pay the claim for those properties. In each of the past five years, the 98.0% calculation has resulted in just under \$125.0 million in BPTC payments to the property tax system.

The Department calculated the BPTC initial value for each of the past five fiscal years to be:

- FY 2017 — \$255,857
- FY 2018 — \$266,340
- FY 2019 — \$241,690
- FY 2020 — \$251,788
- FY 2021 — \$219,886

Over the past five fiscal years, the calculated amount of the BPTC initial value has decreased from \$255,857 to \$219,886. Changes to the initial value amount only impact the tax credit for properties with values above the initial value. There are four factors that influence the initial value amount from year to year, and those factors are detailed in the list below. The list provides explanations as to why a change in each factor results in a lower initial value. Opposite situations produce an increase in the calculated initial value.

Over the years, calculation factors that have caused the initial value amount to decline include an increase in the number of qualified property units, property value appreciation, and a decrease in the residential rollback percentage. A decrease in the average property tax rate has mitigated the initial value decrease somewhat.

⁴ For FY 2021, 83.4% of all qualified properties are single parcels.

- **An increase in the number of qualified property units** — An increase in the number of qualified properties means that the amount available to fund the BPTC must be spread to more properties. In addition to new physical locations applying for and qualifying for the BPTC, the number of property units may increase if owners successfully break up previous combined property units into multiple units. The number of property units that qualify for the BPTC has been increasing. The number of units for each of the past five fiscal years is:
 - FY 2017 — 76,666
 - FY 2018 — 77,580
 - FY 2019 — 78,409
 - FY 2020 — 78,719
 - FY 2021 — 79,414
- **Increased property tax rates** — Property tax rates change every year, and if the changes result in an increase in the average tax rate for qualified business properties, then the \$125.0 million annual appropriation will not cover as much total property value. The average business property tax rate for BPTC-qualifying property has declined from \$36.04 per \$1,000 of taxed value in FY 2017 to \$35.53 per \$1,000 of taxed value in FY 2021.
- **Property value appreciation** — Most property tends to increase in value (appreciate) over time. While property value appreciation does not impact the BPTC amount for properties with a value higher than the initial value, appreciation of properties with a value below the initial value does increase the BPTC amount for those properties, lowering the amount of initial value that can be covered by the BPTC each year.
- **A decrease in the residential rollback** — In order to ensure that qualified business property up to the initial value is taxed the same as residential property, the BPTC pays the tax amount that is the result of the difference between the set 90.0000% business property rollback and the variable residential rollback (averaging in recent years around 56.0000%). In years when the residential rollback decreases, the difference between the residential rollback and the 90.0000% business property rollback increases, so the BPTC calculation results in every qualified property receiving a higher credit than the previous year for all property value up to the initial value for that fiscal year. The following list provides the rollback differential calculation for each of the past five years:
 - FY 2017 — 90.0000% minus 55.6259% = 34.3741%
 - FY 2018 — 90.0000% minus 56.9391% = 33.0609%
 - FY 2019 — 90.0000% minus 55.6209% = 34.3791%
 - FY 2020 — 90.0000% minus 56.9180% = 33.0820%
 - FY 2021 — 90.0000% minus 55.0743% = 34.9257%

BUSINESS PROPERTY TAX CREDIT CALCULATION

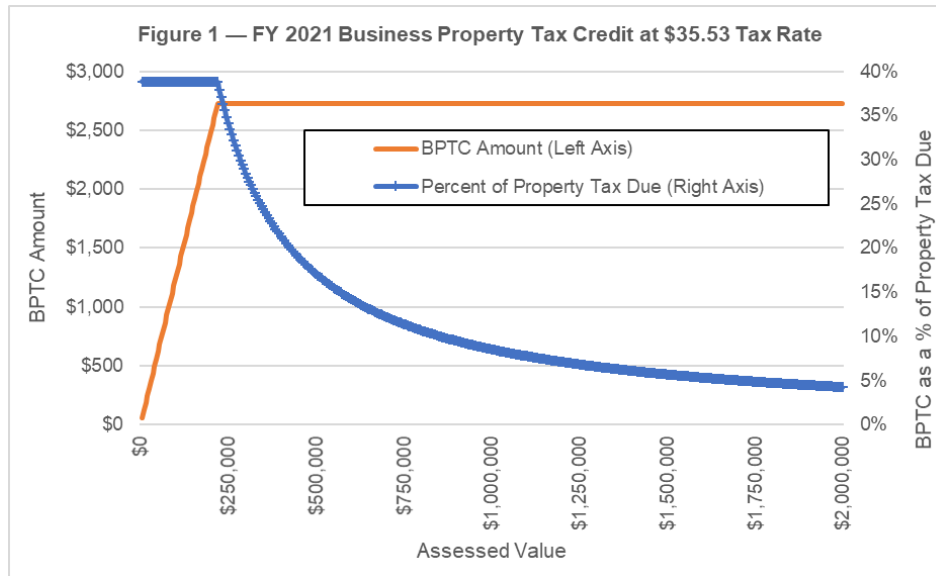
The following information is needed to calculate the BPTC for a particular property unit:

- Property parcel or unit assessed value, up to the maximum initial value determined for that year.⁵ For FY 2021, the maximum initial value is \$219,886.
- Difference between the commercial property and residential rollback percentages. For FY 2021, this is calculated as 90.0000% minus 55.0743% = 34.9257%.
- The consolidated property tax rate for the individual property unit. For FY 2021, the average rate for all BPTC properties was \$35.53 per \$1,000 of taxed property value.
- Examples of the BPTC calculation using an average property tax rate of \$35.53 per \$1,000 of taxed property value (3.553%):
 - For a property unit with an assessed value of \$125,000, the BPTC equals \$125,000 times 34.9257% times 3.553% = \$1,551. For this example property, the BPTC would cover 38.8% of the property tax due.⁶
 - For a property unit with an assessed value equal to the maximum initial value, the BPTC equals \$219,886 times 34.9257% times 3.553% = \$2,729. For this example property, the BPTC would cover 38.8% of the property tax due.
 - For a property unit with an assessed value of \$1.0 million, the BPTC equals \$219,886 times 34.9257% times 3.553% = \$2,729. For this example property, the BPTC would cover 8.5% of the property tax due.
 - For a property unit with an assessed value of \$10.0 million, the BPTC equals \$219,886 times 34.9257% times 3.553% = \$2,729. For this example property, the BPTC would cover 0.9% of the property tax due.

Figure 1 presents the BPTC dollar amount and the percent of property tax due for individual property units with assessed values of up to \$2.0 million. For FY 2021, 94.4% of BPTC property units have an assessed value of \$2.0 million or less, and 83.4% have an assessed value of less than the initial value amount of \$219,886.

⁵ The assessed property value used for calculating the BPTC is after any property exemptions or abatements are subtracted from a property's full assessed value.

⁶ For each example property, the full (pre-BPTC) property tax due is calculated by multiplying the assessed value by the business property rollback (90.0000%) by the example tax rate of 3.553%.



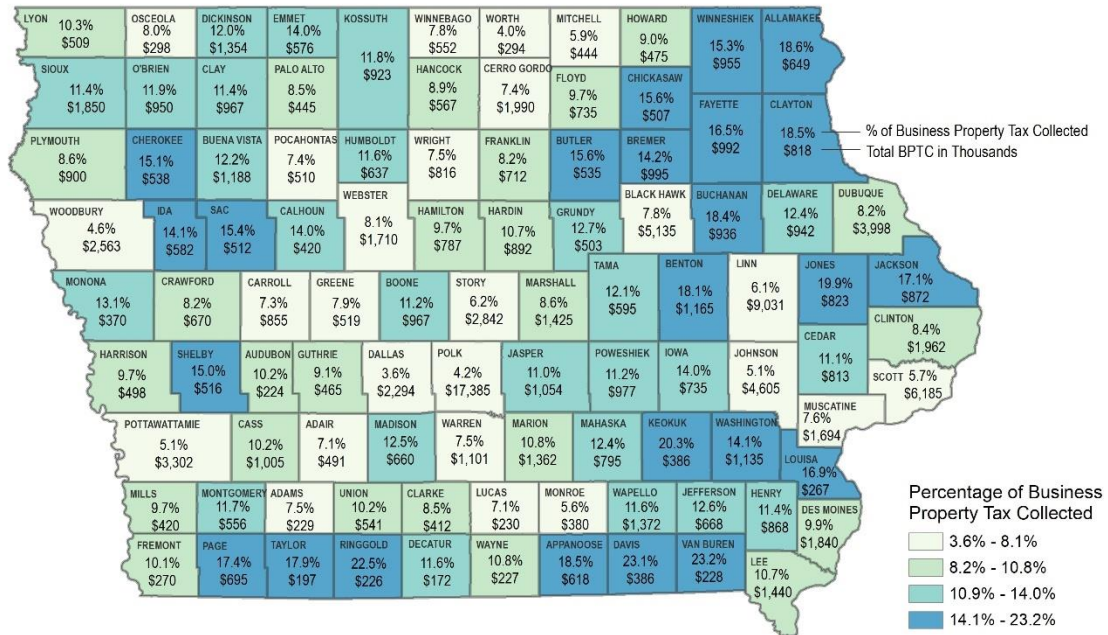
Statewide, 89.7% of all business property value applied and qualified for the BPTC for FY 2021. The highest BPTC applies to properties that have an assessed value in excess of the initial value for the year and are in the taxing district with the highest property tax rate. For FY 2021, the highest BPTC amount was \$4,036 and the median was \$1,473. Nearly 50.0% of qualified business property benefited from a BPTC of between \$1,000 and \$3,000. The Statewide average BPTC for the past five fiscal years equaled:

- FY 2017 — \$1,621
- FY 2018 — \$1,599
- FY 2019 — \$1,600
- FY 2020 — \$1,585
- FY 2021 — \$1,570

Figure 2 provides the sum of all credits paid to counties for FY 2021. The FY 2021 total for the entire State is \$124.7 million. **Figure 2** also shows the percentage of all business property taxes paid on property within the individual counties that is actually paid by the State General Fund through the BPTC appropriation.⁷ The BPTC pays 7.2% of all business property tax Statewide. **Appendix A** provides BPTC statistics by county for FY 2021.

⁷ The county percentage is calculated by dividing the FY 2021 amount paid from the State General Fund to reimburse the county for the revenue reduction created by the BPTC by the total FY 2021 property tax revenue the county receives from commercial, industrial, and railroad property. The total FY 2021 property tax revenue includes the BPTC reimbursement, but does not include the reimbursement for property tax reductions associated with the 90.0000% business property rollback.

Figure 2 — Business Property Tax Credit (BPTC) by County



BUDGET IMPACT

The BPTC is fully funded by the State General Fund, so the credit has no impact on local government revenue or local government property tax rates.

The \$125.0 million annual standing appropriation from the State General Fund that finances the BPTC reduces the ability of the State to finance a different function, or conversely, requires the State to collect more tax revenue than would be necessary without the annual \$125.0 million appropriation.

If the annual appropriation is reduced or eliminated, the benefit of the BPTC to business property owners would be reduced dollar-for-dollar unless additional changes were made to the credit. If the appropriation is increased, the benefit to all business property with an assessed value higher than the BPTC initial value would increase.

SUMMARY

The BPTC was created as part of larger property tax modification legislation that reduced the taxed portion of business property value to 90.0000% (from 100.0000% in most years), transitioned multi-residential property (apartments, nursing homes, etc.) to the same system as residential property, reduced the annual maximum taxable value growth rate for residential and agricultural property, and reduced the taxed value of telecommunications property.

The BPTC is designed to lower the tax burden for qualified business property and it concentrates the tax reduction on properties with lower assessed values. The BPTC pays a portion of the property tax due on all qualified commercial, industrial, and railroad property in the State. The BPTC first became available in FY 2015 and has been funded by the State General Fund at the \$125.0 million annual level since FY 2017. More than 79,000 property units

representing 89.7% of the business property value in the State benefited from the credit in FY 2021. The average BPTC property tax credit for FY 2021 was \$1,570.

If recent property value and property unit number trends continue, the initial value will decrease in coming years, which will reduce the BPTC benefit for property units with assessed values higher than the initial value.

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APPENDIX A — FY 2021 BUSINESS PROPERTY TAX CREDIT STATISTICS

Appendix A FY 2021 Business Property Tax Credit (BPTC) Statistics by County									
County Name	Number of BPTC Units	Total BPTC Amount	FY 2021 Commercial, Industrial, and Railroad Property Tax Amount *	BPTC as a % of Total FY 2021 Property Tax Collected from all Business Property	County Name	Number of BPTC Units	Total BPTC Amount	FY 2021 Commercial, Industrial, and Railroad Property Tax Amount *	BPTC as a % of Total FY 2021 Property Tax Collected from all Business Property
Adair	356	\$ 490,615	\$ 6,877,301	7.1%	Jefferson	429	\$ 667,908	\$ 5,314,864	12.6%
Adams	226	228,868	3,048,529	7.5%	Johnson	2,008	4,605,028	90,879,719	5.1%
Allamakee	582	648,966	3,496,051	18.6%	Jones	658	822,885	4,129,396	19.9%
Appanoose	449	617,816	3,336,559	18.5%	Keokuk	426	386,427	1,904,433	20.3%
Audubon	207	223,888	2,192,736	10.2%	Kossuth	973	922,892	7,818,544	11.8%
Benton	868	1,165,324	6,430,896	18.1%	Lee	962	1,440,071	13,496,850	10.7%
Black Hawk	2,558	5,134,599	65,589,167	7.8%	Linn	3,847	9,030,526	148,416,964	6.1%
Boone	688	966,837	8,651,933	11.2%	Louisa	265	266,829	1,580,857	16.9%
Bremer	724	994,844	7,000,280	14.2%	Lucas	208	230,349	3,258,022	7.1%
Buchanan	712	936,247	5,100,524	18.4%	Lyon	523	509,458	4,931,930	10.3%
Buena Vista	861	1,187,922	9,712,006	12.2%	Madison	369	660,108	5,263,730	12.5%
Butler	579	535,176	3,439,930	15.6%	Mahaska	552	795,463	6,422,328	12.4%
Calhoun	512	419,838	3,003,941	14.0%	Marion	794	1,362,342	12,629,334	10.8%
Carroll	705	854,816	11,652,289	7.3%	Marshall	836	1,424,581	16,647,009	8.6%
Cass	709	1,004,784	9,808,864	10.2%	Mills	303	420,135	4,353,289	9.7%
Cedar	724	812,568	7,328,775	11.1%	Mitchell	387	443,814	7,474,875	5.9%
Cerro Gordo	1,227	1,990,384	26,828,742	7.4%	Monona	422	369,865	2,816,644	13.1%
Cherokee	533	538,083	3,568,616	15.1%	Monroe	296	380,356	6,801,208	5.6%
Chickasaw	486	507,386	3,260,510	15.6%	Montgomery	443	555,745	4,730,224	11.7%
Clarke	261	411,695	4,866,713	8.5%	Muscatine	1,007	1,693,670	22,213,550	7.6%
Clay	663	967,421	8,522,176	11.4%	O'Brien	976	949,907	7,971,443	11.9%
Clayton	773	817,576	4,413,083	18.5%	Osceola	397	298,391	3,747,021	8.0%
Clinton	1,326	1,962,210	23,338,572	8.4%	Page	587	695,459	3,993,529	17.4%
Crawford	487	669,583	8,206,895	8.2%	Palo Alto	479	444,734	5,240,819	8.5%
Dallas	1,298	2,294,367	63,599,538	3.6%	Plymouth	844	900,336	10,464,458	8.6%
Davis	286	385,918	1,671,426	23.1%	Pocahontas	560	510,388	6,923,060	7.4%
Decatur	101	171,687	1,477,694	11.6%	Polk	6,873	17,384,871	411,111,565	4.2%
Delaware	732	942,177	7,609,851	12.4%	Pottawattamie	1,481	3,302,193	64,950,724	5.1%
Des Moines	1,069	1,840,351	18,613,194	9.9%	Poweshiek	651	976,697	8,722,282	11.2%
Dickinson	1,464	1,353,562	11,239,938	12.0%	Ringgold	234	226,097	1,006,779	22.5%
Dubuque	2,473	3,997,666	48,750,352	8.2%	Sac	631	511,981	3,313,839	15.4%
Emmet	495	576,031	4,116,702	14.0%	Scott	2,978	6,185,016	108,397,304	5.7%
Fayette	854	991,857	5,994,944	16.5%	Shelby	425	516,164	3,452,296	15.0%
Floyd	536	734,895	7,540,320	9.7%	Sioux	1,379	1,850,051	16,231,181	11.4%
Franklin	543	712,240	8,705,320	8.2%	Story	1,660	2,842,425	46,014,425	6.2%
Fremont	277	270,151	2,676,831	10.1%	Tama	511	594,690	4,923,325	12.1%
Greene	346	519,055	6,589,804	7.9%	Taylor	249	197,118	1,100,260	17.9%
Grundy	473	503,287	3,964,090	12.7%	Union	348	541,367	5,320,799	10.2%
Guthrie	383	465,365	5,127,627	9.1%	Van Buren	256	227,827	982,582	23.2%
Hamilton	627	787,074	8,134,363	9.7%	Wapello	930	1,371,872	11,800,481	11.6%
Hancock	558	566,736	6,358,927	8.9%	Warren	572	1,100,694	14,656,845	7.5%
Hardin	699	891,802	8,361,259	10.7%	Washington	726	1,134,868	8,041,091	14.1%
Harrison	418	498,210	5,112,576	9.7%	Wayne	239	226,601	2,098,948	10.8%
Henry	614	868,334	7,628,549	11.4%	Webster	1,010	1,709,721	21,056,499	8.1%
Howard	379	474,806	5,258,631	9.0%	Winnebago	491	552,096	7,050,864	7.8%
Humboldt	625	636,624	5,465,569	11.6%	Winneshiek	636	955,395	6,236,657	15.3%
Ida	512	582,101	4,133,745	14.1%	Woodbury	1,488	2,563,194	56,196,058	4.6%
Iowa	656	734,623	5,229,931	14.0%	Worth	332	293,819	7,276,458	4.0%
Jackson	766	871,791	5,085,021	17.1%	Wright	707	816,377	10,859,560	7.5%
Jasper	656	1,053,651	9,574,732	11.0%	Total	79,414	\$ 124,680,607	\$ 1,737,920,944	7.2%

* FY 2021 commercial, industrial and railroad total property tax amount for each county includes the State reimbursement for the BPTC but does not include the State reimbursement associated with the 90.0000% rollback.