



[HF 2685](#) – Governmental Subdivision Audits, Income Tax Exemption (LSB5362HV)
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Fiscal Note Version – New

Description

[House File 2685](#) exempts from the State individual income tax and corporate income tax income received by a certified public accountant (CPA) performing an audit or examination of a governmental subdivision under Iowa Code section [11.6](#).

The Bill applies retroactively for tax years beginning on or after January 1, 2024, and is repealed for tax years beginning on or after January 1, 2029.

Background

Iowa Code section 11.6 details audits of governmental subdivisions and related organizations, which are required to undergo annual audits unless they have a population of less than 2,000 people and more than \$1.0 million in budgeted gross expenditures in consecutive years, in which case they must undergo an audit in the second fiscal year. Cities with less than 2,000 people and less than \$1.0 million in budgeted gross expenditures are required to undergo a periodic examination at least once during an eight-year period.

Assumptions

- The Auditor of State [reports](#) that between 2018 and 2023, an average of 1,322 audit reports of governments and governmental subdivisions are released per year. Of those reports, approximately 1,027 (78.0%) were conducted by outside CPA firms. It is assumed the number of audits performed by CPA firms remains stable beginning in tax year (TY) 2024.
- An outside CPA audit on governmental subdivisions results in an average of 236 billable hours per audit or examination.
- Outside CPA audits are assumed to bill at \$139 per billable hour and collect \$33.7 million from local governments in TY 2024. This amount is assumed to increase by 2.0% annual inflation beginning in TY 2025.
- It is assumed that a CPA firm contracted to perform governmental subdivision audits and examinations will be structured as either an S corporation or a partnership, with individual partners including this income on their individual income tax returns. It is assumed that these S corporations and partnerships do not elect to utilize the pass-through entity tax (PTET).
- The marginal individual income tax rate is estimated to be 5.0% in TY 2024, 4.7% in TY 2025, and 3.9% in TY 2026 and beyond.
- The [income surtax for schools](#) is a local option tax that is based on a taxpayer's Iowa income tax liability. Law changes that lower Iowa income tax liability also lower the amount of income surtax owed by any taxpayer subject to the surtax. For this **Fiscal Note**, the surtax is assumed to equal 2.5% of State individual income tax liability.

Fiscal Impact

The proposed income exemptions in HF 2685 are projected to decrease net General Fund revenue by the following:

- FY 2025 = \$1.7 million
- FY 2026 = \$1.6 million
- FY 2027 = \$1.4 million
- FY 2028 = \$1.4 million
- FY 2029 = \$1.4 million

The Bill is projected to decrease school district surtax revenue by the following:

- FY 2025 = \$42,000
- FY 2026 = \$40,000
- FY 2027 = \$34,000
- FY 2028 = \$35,000
- FY 2029 = \$36,000

Sources

Iowa Department of Revenue
Iowa Auditor of State
Legislative Services Agency analysis

/s/ Jennifer Acton

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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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