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## FISCAL TOPICS

Fiscal Services Division

November 26, 2019



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Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

## Tax Credit: Taxpayers Trust Fund Tax Credit

The Taxpayers Trust Fund Tax Credit was rescinded in [SF 2417](#) (Income and Sales Tax Modifications Act of 2018).

The Taxpayers Trust Fund Tax Credit was an individual income tax credit available to Iowa taxpayers when the Taxpayers Trust Fund held a balance of \$30.0 million or more. When this State financial condition was met, the credit was available to all Iowa taxpayers with positive individual income tax liability that tax year. For tax returns filed by married couples, both taxpayers were eligible for the tax credit.

The maximum credit amount available to taxpayers for a tax year was calculated by the Department of Revenue (DOR). When the \$30.0 million threshold condition was met, the DOR calculated the maximum tax credit available for the tax year by dividing the funds available by the number of taxpayers filing individual income tax returns for the previous tax year. For this calculation, taxpayers without income tax liability were included in the count, and tax returns filed by married couples were counted as two taxpayers.

For tax year 2013 returns, the maximum tax credit was \$54, and for tax year 2014, the maximum tax credit was \$15. For tax year 2015 through 2017 returns, the \$30.0 million balance threshold was not met, so no Taxpayers Trust Fund Tax Credit was available.

The tax credit reduced State General Fund revenue by reducing the income tax liability of taxpayers. Per Iowa Code requirements, the State General Fund was reimbursed for the revenue reduction through a transfer from the Taxpayers Trust Fund equal to the cumulative total of all the tax credits allowed taxpayers that fiscal year.

The Taxpayers Trust Fund received revenue through transfers to that Fund from the State General Fund when certain financial conditions were met at the conclusion of a fiscal year. The Fund balance also earned interest. In any fiscal year when the actual net revenue deposited to the State General Fund for that year exceeded the adjusted revenue estimate for that same fiscal year, any General Fund ending balance for the fiscal year, up to a maximum of \$60.0 million, was transferred to the Taxpayers Trust Fund. For fiscal years when there was no General Fund excess, or years when actual revenue was below budgeted revenue, no transfer from the State General Fund to the Taxpayers Trust Fund occurred.

The required transfer conditions were met at the conclusion of fiscal years 2013 and 2014. For each of those years, the full \$60.0 million was transferred from the State General Fund ending balance to the Taxpayers Trust Fund. The conditions were not met at the end of FY 2015 through FY 2018, so no funds were transferred.

The total amount of tax credits available in a year was limited by the funds available in the Taxpayers Trust Fund. Oversight was a function of DOR tax return auditing. The tax credit was not refundable or transferable. If, after application of all other refundable and nonrefundable tax credits, a taxpayer's Iowa income tax liability was zero or negative, that taxpayer could not benefit from the Taxpayers Trust Fund Tax Credit that tax year.

### Tax Credit Background

- Enabling Legislation: 2013 Iowa Acts, chapter [123](#) (Property Reform and Income Tax Credit Act of 2013)
- Iowa Code Citation: Iowa Code section [422.11E](#)
- Administrative State Agency: None
- Sunset Date: None
- Transferable: No
- Refundable: No
- Carryforward: None

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### More Information

Department of Revenue Tax Credit Review – TY 2013:

[tax.iowa.gov/reports/iowa-tax-year-2013-taxpayers-trust-fund-tax-credit-report](http://tax.iowa.gov/reports/iowa-tax-year-2013-taxpayers-trust-fund-tax-credit-report)

Legislative Services Agency Income Tax Guide: [www.legis.iowa.gov/docs/publications/LG/711304.pdf](http://www.legis.iowa.gov/docs/publications/LG/711304.pdf)

LSA Staff Contact: Jeff W. Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)

- Tax Review Committee Review Year: Review of this credit is not a duty of the Committee. However, the DOR completed a [review](#) for the initial year of the tax credit.

### Tax Credit Review, Usage, and Future Liability

The Department of Revenue reports on the annual credit usage for most Iowa tax credits in its periodic [Contingent Liabilities Report](#). However, the Taxpayers Trust Fund Tax Credit was not included in that report. The statistics presented in this *Fiscal Topic* come from a DOR tax year 2013 report that is specific to this credit, supplemental information gathered from the Department covering tax year 2014, and from the State accounting system.

For tax years 2013 and 2014, respectively, 74.8% and 74.6% of filed Iowa income tax returns benefited from the Taxpayers Trust Fund Tax Credit. Computed on an individual income taxpayer basis, approximately 90.0% of the benefit of the tax credit was received by resident taxpayers. Across the two tax years, the total taxpayer benefit equaled \$113.5 million. Summary statistics for the two tax years are provided in the following table:

<b>Taxpayers Trust Fund (TTF) Tax Credit Claims</b>		
	<u>Tax Year 2013</u>	<u>Tax Year 2014</u>
Number of Returns with TTF Claims	1,157,700	1,176,785
Number of Tax Returns Filed	1,548,526	1,576,958
% of Returns with TTF Claims	74.8%	74.6%
Total Claims (\$)	\$88,266,105	\$25,193,991
<u>Taxpayers Benefiting from the Credit:</u>		
Individual Taxpayers, Residents	1,572,877	1,584,914
Individual Taxpayers, Nonresidents	171,233	182,358
Total Individual Taxpayers	1,744,110	1,767,272
Average Claim Per Eligible Taxpayer	\$ 50.61	\$ 14.26
Maximum Credit Per Taxpayer	\$ 54.00	\$ 15.00

The impact of the tax credit on State General Fund revenue on a fiscal year basis is similar, but not the same as the tax year impact reported in the table. The fiscal year State General Fund net revenue reductions for the two years the credit was available were:

- FY 2014 = \$84,556,674
- FY 2015 = \$27,663,488

Note that the total fiscal year impact for FY 2014 and FY 2015 is \$112.2 million, \$1.3 million less than the total credits claimed for tax years 2013 and 2014, while the total tax year credit claims total \$113.5 million. The DOR indicates that by the time the final accounting of Tax Year (TY) 2014 tax credit claims was completed, the appropriation from the Taxpayers Trust Fund was no longer available, and therefore the remaining \$1.3 million in tax credits negatively impacted the State General Fund instead of the Taxpayers Trust Fund.

### Future Availability of the Tax Credit

The Taxpayers Trust Fund Tax Credit was repealed in [SF 2417](#) and is no longer available. Under provisions of section 5 of [HF 2502](#) (FY 2019 Standings Appropriations Act), the \$8.4 million balance in the Taxpayers Trust Fund was transferred to the State General Fund during FY 2019.