

Fiscal Note



Fiscal Services Division

<u>HF 679</u> – Economic Development Authority Policy Bill (LSB1164HZ.1) Staff Contact: Molly Kilker (515.725.1286) <u>molly.kilker@legis.iowa.gov</u> Fiscal Note Version – Revised (Fiscal Impact)

Description

<u>House File 679</u> relates to various programs within the Iowa Economic Development Authority (IEDA).

Division I — Tax Credits

Description

Division I of the Bill amends the Renewable Chemical Production Tax Credit (RCPTC) program and the Innovation Fund Tax Credit (IFTC). The Division removes serine, threonine, lysine, and nonfuel ethanol from the definition of "building block chemical" and increases the annual tax credit limit for companies that have been in existence for five years or more to \$1.0 million. The Division extends the availability of the tax credit through FY 2036 and extends the future repeal date to July 1, 2039. Division I of the Bill also extends the future repeal date for taxes imposed under Iowa Code sections 422.10B and 422.33 from January 1, 2033, to January 1, 2041.

The IFTC is amended by eliminating the wait list and extending the time the IEDA may certify an Innovation Fund from FY 2023 to FY 2028.

lowa Code section <u>15E.52</u> defines an "innovative business" as including those engaged in the industries of advanced manufacturing, biosciences, finance, insurance, and information technology. The Division adds "educational technology" to this definition.

Background

The RCPTC is available to approved businesses that produce renewable chemicals from biomass feedstock in Iowa. The tax credit is equal to \$0.05 per pound of renewable chemicals produced. To qualify for the credit, a business must apply to and enter into an agreement with the IEDA prior to the production of any pound of chemical that will earn the tax credit. The tax credit is available for qualified renewable chemicals produced from January 1, 2017, through December 31, 2035.

The IFTC allows equity investments to be made into an Innovation Fund, which is administered by the IEDA. A certified Innovation Fund makes investments in promising early-stage companies whose principal business operations are located in Iowa if those companies are engaged primarily in advanced manufacturing, biosciences, and information technology.

Assumptions

- The proposed changes to the RCPTC program will not impact current RCPTC award recipients. Participating companies will continue to receive certificates prior to the existing deadline until five certificates have been awarded to each eligible business.
- Changes to program limits will not have a significant impact to the General Fund and are not included in the fiscal estimate.

- One new renewable chemical facility will qualify under the terms of Division I in each of the next three years.
- For the first renewable chemical facility, the production will begin in CY 2025, the first certificate will be issued in FY 2026, and the first fiscal impact will occur in FY 2027. The other two plants will follow the same fiscal pattern as the first renewable chemical facility.
- The production in each of the new plants will be sufficient each year to be awarded the maximum credit of \$1.0 million per year for five years.
- The timing of future RCPTC claims will be similar to the historic timing of claims.
- The elimination of the wait list for the RCPTC and the IFTC will not reduce revenue as neither program has reached the tax credit cap.
- The IEDA assumes that there would be a negligible net impact to the General Fund for currently participating companies that have been in existence for five or more years.
- Table 1 shows the timing of RCPTC claims by year based on historical trends.

Table 1 Timing of Refundable Tax Credits					
Year 1	35.4%				
Year 2	37.6%				
Year 3	26.1%				
Year 4	0.9%				
Total	100.0%				

Fiscal Impact

The initial impact of the RCTPC program to the General Fund under Division I is projected to occur by FY 2027. The revenue reductions in the first four years, FY 2028 to FY 2031, are a result of the new awards and additional companies participating in the RCTPC program. The RCTPC program is estimated to reduce General Fund revenue by a total of \$9.2 million by FY 2031, as shown in **Table 2**.

Table 2								
General Fund								
Revenue Reduction								
(\$ Millions)								
FY 2027	\$	-0.4						
FY 2028		-1.1						
FY 2029		-2.1						
FY 2030		-2.7						
FY 2031		-3.0						

The extension of the sunset from FY 2023 to FY 2028 for the IFTC will decrease General Fund revenue as shown in **Table 3**. The fiscal impact of expanding the definition of an "innovative business" cannot be estimated with current data.

Division II — Iowa Wine, Beer, and Spirits Promotion Board

Description

Division II of HF 679 broadens the membership of the Iowa Wine and Beer Promotion Board to include spirits. Correspondingly, the Board's membership is increased from three members to four, each representing one of the three entities of the Board (wine, beer, and spirits) with a single representative from the IEDA. Moneys appropriated to the Authority from the Wine Gallonage Tax, Barrel Tax Revenue, and Beer and Liquor Control Fund as well as moneys transferred to the Authority may be used by the Authority to promote Iowa wine, beer, and spirits, including administrative expenses incurred under the promotion.

Division II transfers the lesser of \$250,000 or up to 1.0% of native distilled spirits revenue to the Board. The transfer from the Department of Commerce to the IEDA would be used to promote beer, wine, and spirits made in Iowa, as well as for administrative expenses related to the Board.

Assumptions

- Native distilled spirit sales are estimated to be between \$1.4 million and \$1.6 million annually.
- The predictions are based on historical sales data.

Fiscal Impact

House File 679 decreases revenue to the General Fund by between \$130,000 and \$160,000 per year beginning in FY 2024 and transfers the money to the IEDA to be used to support the Wine and Beer Promotion Board.

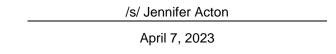
Summary of Fiscal Impact

Table 3 summarizes the projected fiscal impacts of HF 679.

Table 3 — Estimated Total Fiscal Impact (\$ in Millions)											
Division	General Fund Impact	FY	2024	FY	2025	FY	2026	FY	2027	FY	2028
I	Renewable Chemical Production Tax Credit	\$	0.0	\$	0.0	\$	0.0	\$	-0.4	\$	-1.1
1	Innovation Fund Tax Credit		-0.1		-1.3		-3.2		-2.9		-4.4
II	Wine and Beer Promotion Board		-0.1		-0.1		-0.1		-0.1		-0.1
	Total Revenue Reduction	\$	-0.2	\$	-1.4	\$	-3.3	\$	-3.4	\$	-5.6

Sources

Iowa Department of Revenue Iowa Economic Development Authority Alcoholic Beverages Division, Department of Commerce Tax Credit Award, Claim, and Transfer Administration System



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The fiscal note for this Bill was prepared pursuant to <u>Joint Rule 17</u> 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.