

House File 697 - Introduced

HOUSE FILE 697

BY KONFRST, FORBES,
BAGNIEWSKI, CAHILL,
CROKEN, WILSON, COOLING,
BAETH, LEVIN, TUREK,
STAED, SCHEETZ, KURTH,
AMOS JR., NIELSEN,
BUCK, WESSEL-KROESCHELL,
STECKMAN, MATSON, WILBURN,
JAMES, GAINES, JUDGE,
MADISON, JACOBY, KRESSIG,
EHLERT, B. MEYER, SRINIVAS,
BROWN-POWERS, OLSON, and
SCHOLTEN

A BILL FOR

1 An Act establishing an Iowa housing tax credit program
2 and increasing first-time homebuyer tax incentives, and
3 including effective date and applicability provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

IOWA HOUSING TAX CREDIT PROGRAM

Section 1. NEW SECTION. 16.37A Definitions.

For purposes of this part, unless the context otherwise requires:

1. "*Compliance period*" means the period of fifteen years beginning with the first taxable year of the credit period.

2. "*Credit period*" means the period of ten tax years beginning with the tax year in which a qualified development is placed in service and the Iowa housing tax credit may be claimed. If a qualified development consists of more than one building, the qualified development is placed in service in the tax year in which the last building of the qualified development is placed in service.

3. "*Department*" means the Iowa department of revenue.

4. "*Qualified allocation plan*" means the qualified allocation plan adopted by the authority pursuant to section 42(m) of the Internal Revenue Code.

5. "*Qualified basis*" means the qualified basis determined under section 42(c)(1) of the Internal Revenue Code.

6. "*Qualified development*" means a qualified low-income housing project under section 42(g) of the Internal Revenue Code that is financed with tax-exempt bonds, pursuant to section 42(i)(2) of the Internal Revenue Code, and located in this state.

7. "*Taxpayer*" means an individual, a person, firm, corporation, or other entity that owns an interest, direct or indirect, in a qualified development and who claims a tax credit under section 16.37C.

Sec. 2. NEW SECTION. 16.37B Application — review — authorization.

1. The authority shall develop a system for the application, review, and authorization of Iowa housing tax credits awarded pursuant to this part and shall control the issuance of all tax credit certificates to taxpayers pursuant to this part.

1 2. Applications for Iowa housing tax credits shall be
2 accepted during an annual application period established by the
3 authority.

4 3. The authority may authorize the tax credit if all of the
5 following conditions are satisfied:

6 *a.* The tax credit certificate is issued to a taxpayer who
7 has an ownership interest in the qualified development.

8 *b.* The tax credit amount is allocated pursuant to a
9 qualified allocation plan.

10 *c.* The tax credit is necessary for the financial feasibility
11 of the qualified development.

12 *d.* The amount of the tax credit allocated to an owner
13 does not exceed thirty percent of the qualified basis of the
14 qualified development.

15 *e.* The qualified development is the subject of a recorded
16 restrictive covenant requiring that, for the compliance period
17 or for a longer period agreed to by the authority and the
18 owner of the qualified development, the development shall be
19 maintained and operated as a qualified development and shall be
20 in compliance with Tit. VIII of the federal Civil Rights Act of
21 1968, as amended.

22 4. Upon review of an application, the authority may approve
23 the qualified development for the tax credit program provided
24 in section 16.37C, and issue a tax credit certificate stating
25 the amount of the tax credit the authority determines the
26 applicant is eligible to claim for each year of the credit
27 period.

28 5. Unless otherwise provided in this section or the context
29 clearly requires otherwise, the authority shall determine
30 eligibility for a credit and allocate credits in accordance
31 with the standards and requirements set forth in section 42 of
32 the Internal Revenue Code.

33 6. An applicant that is unsuccessful in receiving a tax
34 credit award during an annual application period may make
35 additional applications during subsequent annual application

1 periods. Such applicants shall be required to submit a new
2 application which shall be reviewed in the same manner as other
3 applications in that annual application period.

4 Sec. 3. NEW SECTION. 16.37C Iowa housing tax credits —
5 limits.

6 1. An Iowa housing tax credit shall be allowed against
7 the taxes imposed in chapter 422, subchapters II, III, and V,
8 and in chapter 432, and against the moneys and credits tax
9 imposed in section 533.329, in the amount determined by the
10 authority pursuant to this part. Any tax credit in excess of
11 the taxpayer's liability for the tax year is not refundable but
12 may be credited to the tax liability for the following five
13 years or until depleted, whichever is earlier.

14 2. An individual may claim a tax credit under this
15 subsection of a partnership, limited liability company,
16 S corporation, estate, or trust electing to have income
17 taxed directly to the individual. The amount claimed by the
18 individual shall be based upon the pro rata share of the
19 individual's earnings from the partnership, limited liability
20 company, S corporation, estate, or trust.

21 3. In any calendar year, the aggregate amount of all tax
22 credits allocated by the authority shall not exceed fifteen
23 million dollars, plus the sum of the following amounts:

24 a. The total of all unallocated tax credits, if any, for the
25 preceding calendar years.

26 b. The total amount of all previously allocated tax credits
27 that have been recaptured, revoked, canceled, or otherwise
28 recovered by the authority.

29 4. a. To claim a tax credit under this section, a taxpayer
30 shall include one or more tax credit certificates issued by the
31 authority with the taxpayer's tax return.

32 b. The tax credit certificate shall contain the taxpayer's
33 name, address, tax identification number, the amount of the
34 credit including the amount the authority determines the
35 taxpayer is eligible to claim for each year of the credit

1 period, the name of the qualified development, any other
2 information required by the department of revenue, and a place
3 for the name and tax identification number of a transferee and
4 the amount of the tax credit being transferred.

5 *c.* Tax credit certificates issued under this section may
6 be transferred to any person or entity. Within ninety days
7 of transfer, the transferee shall submit the transferred tax
8 credit certificate to the authority along with a statement
9 containing the transferee's name, tax identification number,
10 and address, the denomination that each replacement tax credit
11 certificate is to carry, and any other information required by
12 the department of revenue.

13 *d.* Within thirty days of receiving the transferred tax
14 credit certificate and the transferee's statement, the
15 authority shall issue one or more replacement tax credit
16 certificates to the transferee. Each replacement tax credit
17 certificate must contain the information required for the
18 original tax credit certificate and must have the same
19 expiration date that appeared in the transferred tax credit
20 certificate. Tax credit certificate amounts of less than
21 the minimum amount established by rule of the Iowa finance
22 authority shall not be transferable.

23 *e.* A tax credit shall not be claimed by a transferee
24 under this section until a replacement tax credit certificate
25 identifying the transferee as the proper holder has been
26 issued. The transferee may use the amount of the tax credit
27 transferred against the taxes imposed in chapter 422,
28 subchapters II, III, and V, and in chapter 432, and against the
29 moneys and credits tax imposed in section 533.329, for any tax
30 year the original transferor could have claimed the tax credit.
31 Any consideration received for the transfer of the tax credit
32 shall not be included as income under chapter 422, subchapters
33 II, III, and V. Any consideration paid for the transfer of the
34 tax credit shall not be deducted from income under chapter 422,
35 subchapters II, III, and V.

1 **Sec. 4. NEW SECTION. 16.37D Recapture.**

2 1. As of the last day of any tax year during the compliance
3 period, if the amount of the qualified basis of a qualified
4 development owned by a taxpayer claiming the credit is less
5 than the amount of the qualified basis as of the last day of the
6 immediately preceding tax year, the amount of the taxpayer's
7 liability under this part shall be increased by the recapture
8 amount determined using the method under section 42(j) of the
9 Internal Revenue Code.

10 2. If a recapture event occurs, the taxpayer shall include
11 the recaptured proportion of the credit on the return submitted
12 for the tax year in which the recapture event is identified.

13 **Sec. 5. NEW SECTION. 16.37E Compliance monitoring.**

14 The authority shall monitor and oversee compliance with
15 sections 16.37A through 16.37D and shall report specific
16 occurrences of noncompliance to the department.

17 **Sec. 6. NEW SECTION. 16.37F Report to the general assembly.**

18 1. On or before January 31 of each year, the authority shall
19 submit to the general assembly a report that includes all of
20 the following:

21 2. A statement of the number of qualified developments for
22 which the authority issued tax certificates that year.

23 3. A description of each qualified development for which
24 the authority issued a tax certificate that year, including the
25 geographic location of the development, the household type and
26 any specific demographic information available concerning the
27 residents intended to be served by the development, the income
28 levels of residents intended to be served by the development,
29 and the rents or set-asides authorized for each development.

30 4. An analysis of housing market and demographic
31 information that shows how the qualified developments for
32 which the authority has issued tax certificates at any time
33 are addressing the need for affordable housing within the
34 communities those developments are intended to serve, and an
35 analysis of any remaining disparities in the affordability of

1 housing within those communities.

2 Sec. 7. NEW SECTION. 16.37G Rules.

3 The authority and the department shall adopt rules pursuant
4 to chapter 17A as necessary for the implementation and
5 administration of this part.

6 Sec. 8. NEW SECTION. 422.10C Iowa housing tax credit.

7 The taxes imposed under this subchapter, less the credits
8 allowed under section 422.12, shall be reduced by an Iowa
9 housing tax credit allowed under section 16.37C.

10 Sec. 9. Section 422.33, Code 2023, is amended by adding the
11 following new subsection:

12 NEW SUBSECTION. 17. The taxes imposed under this subchapter
13 shall be reduced by an Iowa housing tax credit as allowed under
14 section 16.37C.

15 Sec. 10. Section 422.60, Code 2023, is amended by adding the
16 following new subsection:

17 NEW SUBSECTION. 16. The taxes imposed under this subchapter
18 shall be reduced by an Iowa housing tax credit as allowed under
19 section 16.37C.

20 Sec. 11. NEW SECTION. 432.12P Iowa housing tax credit.

21 The taxes imposed under this chapter shall be reduced by an
22 Iowa housing tax credit allowed under section 16.37C.

23 Sec. 12. Section 533.329, subsection 2, Code 2023, is
24 amended by adding the following new paragraph:

25 NEW PARAGRAPH. n. The moneys and credits tax imposed under
26 this section shall be reduced by an Iowa housing tax credit
27 allowed under section 16.37C.

28 Sec. 13. CODE EDITOR DIRECTIVE. The Code editor shall
29 designate sections 16.37A through 16.37G, as enacted by
30 this division of this Act, as a new part within chapter 16,
31 subchapter VII, and may redesignate the new and preexisting
32 parts, replace references to sections 16.37A through 16.37G
33 with references to the new part, and correct internal
34 references as necessary, including references in subchapter or
35 part headnotes.

1 Sec. 14. EFFECTIVE DATE. This division of this Act takes
2 effect January 1, 2024.

3 Sec. 15. APPLICABILITY. This division of this Act applies
4 to tax years beginning on or after January 1, 2024.

5 DIVISION II

6 FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS

7 Sec. 16. Section 422.7, subsection 27, paragraph a,
8 subparagraph (1), subparagraph division (a), subparagraph
9 subdivisions (i) and (ii), Code 2023, are amended to read as
10 follows:

11 (i) For married taxpayers who file a joint return and
12 maintain a joint first-time homebuyer savings account, ~~four~~ ten
13 thousand dollars.

14 (ii) For any other account holder, ~~two~~ five thousand
15 dollars.

16 EXPLANATION

17 The inclusion of this explanation does not constitute agreement with
18 the explanation's substance by the members of the general assembly.

19 This bill relates to an Iowa housing tax credit program and
20 increasing first-time homebuyer tax incentives, and includes
21 effective date and applicability provisions.

22 DIVISION I — IOWA HOUSING TAX CREDIT PROGRAM. The bill
23 creates an Iowa housing tax credit program available against
24 the individual and corporate income taxes, franchise tax,
25 insurance premium tax, and moneys and credits tax.

26 The bill requires the Iowa finance authority (authority) to
27 develop a system for the application, review, and authorization
28 of Iowa housing tax credits. A tax credit may be claimed by
29 a taxpayer for a "qualified development" defined to mean a
30 qualified low-income housing project under section 42(g) of the
31 Internal Revenue Code that is financed by tax-exempt bonds.

32 An Iowa housing tax credit may be authorized by the authority
33 if all of the following apply: the tax credit is issued to
34 a taxpayer who has an ownership interest in the qualified
35 development; the tax credit amount is allocated pursuant to

1 a qualified allocation plan adopted by the authority; the
2 tax credit is necessary for the financial feasibility of the
3 qualified development; the amount of the tax credit allocated
4 to an owner shall not exceed 30 percent of the qualified basis
5 of the qualified development; and the qualified development is
6 the subject of a recorded restrictive covenant requiring the
7 qualified development be maintained and operated as a qualified
8 development for a certain number of years.

9 The amount of an Iowa housing tax credit award is determined
10 by the authority and may be claimed during the credit period
11 (10 years), and any credit in excess of the taxpayer's
12 liability for the tax year is not refundable but may be
13 credited to the tax liability for the following five years.

14 In any calendar year, the bill limits the aggregate amount
15 of the tax credit to \$15 million plus the sum of the total of
16 unallocated tax credits from the preceding calendar year and
17 the previously allocated tax credits that have been revoked,
18 canceled, or recaptured.

19 A taxpayer shall claim the credit by including one or more
20 tax certificates issued by the authority with the taxpayer's
21 return. The bill allows a tax credit certificate to be
22 transferred to any person or entity. The bill requires the
23 transferee to submit the transferred tax credit certificate to
24 the authority within 90 days of the transfer, and requires the
25 authority to issue a replacement tax credit certificate within
26 30 days of receiving the transferred tax credit certificate.

27 The bill allows the authority to recapture tax credit
28 amounts from previously issued tax credits, if on the last day
29 of a taxable year during the compliance period (15 years), if
30 the amount of the qualified basis of a qualified development
31 owned by a taxpayer claiming the credit is less than the amount
32 of the qualified basis as of the last day of the immediately
33 preceding tax year, the amount of the taxpayer's liability
34 shall be increased by the recapture amount determined using the
35 method under section 42(j) of the Internal Revenue Code. If

1 a recapture event occurs, the bill requires the taxpayer to
2 include the recaptured amount on the return submitted for the
3 tax year in which the recapture event is identified.

4 The bill requires the authority to submit a report to the
5 general assembly by January 31 each year, detailing the Iowa
6 housing tax credit program.

7 The division takes effect January 1, 2024, and applies to tax
8 years beginning on or after that date.

9 DIVISION II — FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS. The
10 bill makes changes to the income tax benefits related to
11 contributions made to a first-time homebuyer savings account.

12 Under current law, for married persons filing a joint return
13 an account holder is allowed to deduct the first \$4,000 of
14 contributions made to an account during the tax year if the
15 account holder also maintains a joint first-time homebuyer
16 savings account, and for any other person the account holder
17 is allowed to deduct for the first \$2,000 of contributions
18 made to such an account during the tax year. The first-time
19 homebuyer savings account annual deduction limits are indexed
20 to inflation and are increased each year. For the 2022 tax
21 year the annual deduction limit for married persons filing a
22 joint return is \$4,363, and for all other persons the limit is
23 \$2,181.

24 The bill increases the annual deduction limit for first-time
25 homebuyer savings account contributions to \$10,000 for married
26 persons filing a joint return, and to \$5,000 for any other
27 account holder. The new annual deduction limits in the bill
28 are also indexed to inflation and are increased each year.