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Fiscal Note

Fiscal Services Division

HF 673 – Telecommunication Property Tax (LSB 1543HV.1)
Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – As passed by the House

House File 673, as passed by the House, alters the basis of property taxation for telecommunications companies. The change applies to companies with 50,000 customer lines or more in Iowa. The change will make property of larger companies subject to property tax in a manner more consistent with the commercial class of property. The change will be phased in over seven assessment years.

The property of telecommunications companies with fewer than 50,000 will continue to be taxed under the current system.

The change is effective with valuations determined January 1, 2012, (FY 2014) or after.

Background

Currently, telephone companies, regardless of customer base, are assessed by the Department of Revenue. In determining the assessed value of telecommunications property, the Department is required to determine the value of all company property of any character, whether real, personal, or mixed. This differs significantly from the processes utilized for assessing the commercial class of property. **House File 673** will not change the process of assessment for companies with fewer than 50,000 lines.

Assumptions

- The average property tax rate for the companies with 50,000 lines or more will be $34.50 per thousand of taxable value in FY 2014 and that rate will increase 1.0% each year.
- Estimated assessed value under current law and under the proposed law was provided by the Department of Revenue.
- The State School Aid Foundation levy is $5.40 per thousand.

Fiscal Impact

House File 673 will reduce the assessed value of local telephone companies with 50,000 customer lines or more over a seven-year period. The projected impact on the State General Fund School Aid appropriation, local government property tax revenue, and the property taxes paid by the impacted telephone companies is presented in the final three columns of the following table. The impacts will be similar in the fiscal years following FY 2020.

Property Tax Reduction, State School Aid Increase, and Local Government Revenue Impacts

Assessment Year	Fiscal Year	Assessed Value Under Current Law in Millions	Assessed Value Under Proposed Law in Millions	Assessment Reduction in Millions	Average Tax Rate of Impacted Companies in Dollars per Thousand	State School Aid Increase in Millions	Local Government Tax Revenue Decrease in Millions	Property Tax Reduction for Companies in Millions
2012	2014	$ 1,144.4	$ 1,083.6	$ 60.8	$ 35.4	$ 0.3	$ -1.9	$ -2.2
2013	2015	1,167.3	1,047.2	120.1	35.75	0.6	-3.7	-4.3
2014	2016	1,190.7	1,011.2	179.5	36.11	1.0	-5.5	-6.5
2015	2017	1,214.5	981.1	233.4	36.47	1.3	-7.2	-8.5
2016	2018	1,238.8	948.2	290.6	36.83	1.6	-9.1	-10.7
2017	2019	1,263.6	924.2	339.4	37.20	1.8	-10.8	-12.6
2018	2020	1,288.8	907.5	381.3	37.57	2.1	-12.2	-14.3

The actual impact to local governments will depend on whether a local government is willing and able to raise property tax levies above where they otherwise would be in response to reduced taxable value. For example:

- If, in response to the reduced taxable value, no local government sets a tax rate higher than they otherwise would, then the local government revenue decrease will be $12.2 million in FY 2020, and the average property tax rate statewide will not be impacted.
- Using the FY 2012 Statewide taxable value of all classes of property ($139.4 billion), an average tax rate increase of 8.8 cents per thousand would be necessary to fully replace $12.2 million in reduced local government tax revenue. If all local governments are willing and able to set rates higher than they otherwise would in order to capture the same level of revenue, the statewide average property tax rate would be $0.088 higher and local government revenue would be unchanged.
- The likely result is a mixture of higher tax rates and lower local government revenue.

Source

Department of Revenue

/s/ Holly M. Lyons

April 21, 2011

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to Code **Section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.