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**HF 2448** – Enterprise Zone Transition (LSB 5320HZ)  
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Fiscal Note Version – New (similar to HF 2305 fiscal note)

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### **Description**

**House File 2448** repeals the existing Economic Development Authority Enterprise Zone (EZ) and the related Housing Enterprise Zone (HEZ) Programs. The purpose of the EZ Program is transferred to the existing High Quality Jobs (HQJ) Program and the purpose of the HEZ Program is transferred to a new Workforce Housing Tax Incentive Program (WHTIP). As part of the transition, several changes to investment tax credits and tax refunds are made.

The new WHTIP is effective on enactment and applies retroactively to tax year 2014. A provision that makes existing HEZ tax credits that were not transferrable when originally issued into transferable tax credits is effective on enactment and applies to qualified nonrefundable HEZ investment tax credits issued prior to July 1, 2014. Holders of the impacted credits are required to notify the Authority of their intent to transfer tax credits.

### **Background**

Only a portion of tax credits awarded by the Authority is eventually redeemed. The Department of Revenue tracks tax credit awards and tax credit redemptions and has determined a redemption pattern (the percentage of a year's worth of awards that is redeemed each year after the awards are made) for each Authority tax credit program. Tax credit redemption patterns vary significantly from program to program and the percentage of awards that are eventually redeemed also varies greatly.

Tax credits may be awarded but never redeemed for several reasons, including:

- Projects that are never started or never completed.
- Projects that fail to meet the requirements of the award.
- Lack of sufficient income tax liability for the holder of nonrefundable and nontransferable tax credits.

The EZ, HEZ, and HQJ Programs as well as the new housing incentive program are part of the Authority's \$170.0 million annual aggregate tax credit cap as established in [Iowa Code section 15.119](#). Since this Bill does not change the annual tax credit cap, this Bill does not alter the annual dollar value of tax credits available to the Authority for award. However, provisions of this Bill will change both the timing of credit redemption and the percentage of awarded credits that are ultimately redeemed.

This Bill also changes the transferability status of outstanding HEZ tax credits. Transferable tax credits are redeemed at a much quicker rate, and at a much higher ratio than nontransferable tax credits.

**Assumptions**

The following table provides current law and proposed law assumptions concerning the redemptions of tax credits awarded under the Authority programs impacted by this Bill. The “# of Years” columns show the number of years a tax credit awarded in one year is assumed to impact. The “% Redeemed” columns show the percent of credits awarded in that one year that is ultimately redeemed on tax returns.

For example, \$1.0 million in HEZ Investment Tax Credits awarded in 2010 is assumed to be redeemed in varying percentages over the time frame of 2010 through 2018, and by the end of 2018, 50.1% (\$501,000) of the original credits is assumed to impact the State General Fund. The remaining \$499,000 is assumed to have no fiscal impact.

	<u>Current Law</u>		<u>Proposed Law</u>	
	<u># of Years</u>	<u>% Redeemed</u>	<u># of Years</u>	<u>% Redeemed</u>
HEZ Investment Tax Credit	9	50.1%	N/A	N/A
HEZ Sales/Use Tax Refunds	9	75.0%	N/A	N/A
WHTIP Investment Tax Credit	N/A	N/A	6	94.0%
WHTIP Sales/Use Tax Refund	N/A	N/A	9	75.0%
EZ Investment Tax Credit	13	37.8%	N/A	N/A
EZ Sales/Use Tax Refunds	5	29.8%	N/A	N/A
HQJ Investment Tax Credit	13	35.1%	13	35.1%
HQJ Sales/Use Tax Refunds	6	35.0%	6	35.0%

For the new WHITC, a greater percentage of tax credits awarded is assumed to be redeemed than under the existing HEZ program due to the addition of complete transferability of tax credits under the new housing program.

For the EZ components transferred to the HQJ Program, the redemption patterns are assumed to be very similar to current law with 30.0% to 35.0% of awarded tax credits eventually redeemed.

Section 24 of this Bill, making existing HEZ tax credits that were not transferrable when originally issued into transferable tax credits will have a fiscal impact, as transferable tax credits are redeemed at a much higher rate than nontransferable tax credits.

**Fiscal Impact**

While the provisions of this Bill do not increase the assumed dollar value of tax credits awarded by the Authority, this Bill does alter the redemption pattern for awarded credits. The following table provides the projected net General Fund revenue reduction associated with this Bill's tax credit redemption changes. The impacts include program revisions that lead to quicker

redemptions of awarded tax credits as well as changes that increase the percentage of awards that are eventually redeemed.

<b>General Fund Revenue Impact</b>	
In millions	
	<u>Revenue</u>
FY 2014	\$ -0.5
FY 2015	-2.3
FY 2016	-2.3
FY 2017	-3.8
FY 2018	-0.9
FY 2019	-1.0
FY 2020	-3.7
FY 2021	-5.0
FY 2022	-6.3

**Sources**

Economic Development Authority  
Department of Revenue

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/s/ Holly M. Lyons

March 26, 2014

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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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