MINUTES
Tax Expenditure Committee

Wednesday, December 9, 2015

MEMBERS PRESENT

Senator Joe Bolkcom, Co-chairperson
Senator Herman C. Quirmbach
Senator Roby Smith

Representative Thomas R. Sands, Co-chairperson
Representative Dave Jacoby
Representative Jerry A. Kearns
Representative Zach Nunn
Representative Matt W. Windschitl

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I. Procedural Business

Call to Order. The second of two meetings of the 2015 Tax Expenditure Committee was called to order at 10:00 a.m. on Wednesday, December 9, 2015, in Room 22 at the State Capitol Building in Des Moines by Co-chairpersons Bolkom and Sands. The meeting was adjourned at 11:53 a.m.

II. Charge and Opening Remarks

Charge. In 2010, the Legislative Tax Expenditure Committee was established pursuant to Iowa Code sections 2.45(5) and 2.48. The committee is required to conduct regular reviews of all tax credit, withholding credit, and revenue division programs.

Opening Remarks. Co-chairpersons Bolkcom and Sands welcomed members of the committee, presenters, and members of the public to the meeting. It was noted that a handout from the Department of Revenue (IDR) in response to questions raised at the November 18, 2015, meeting was available.

III. Update on Reporting for Tax Increment Financing

Presentation. The committee recognized Mr. Jeff Robinson, Senior Fiscal Analyst, Fiscal Services Division, Legislative Services Agency (LSA). Mr. Robinson presented a preliminary report on tax increment financing (TIF) reporting data for FY 2014-2015. Mr. Robinson provided a brief history of the TIF reporting requirements and the reports released to date. TIF reporting requirements were enacted in 2012 and require local governments with existing urban renewal areas to annually report a variety of data to the Department of Management through a state Internet site to be incorporated into a report to be submitted to the General Assembly and the Governor. He noted that as of December 6, 2015, a total of 412 of an expected 475 reports (86.7 percent) have been filed by local governments for FY 2014-2015. Mr. Robinson provided aggregate data on the financial status of TIF revenue and data on the amount and type of debt reported by local governments, including data on the 10 local governments with the highest reported TIF debt. He noted that the data presented to the committee is preliminary and that final numbers would be presented in the LSA's annual report released in early 2016.

Committee Questions and Comments. Mr. Robinson and committee members discussed various aspects of the report, including the ending balance of $111.4 million, the use of reserves to satisfy bonding requirements, and debt information, including methods used to calculate total debt. Members made a number of comments, including the extent to which projects could proceed absent TIF, the extent to which job creation should be measured, and that the original purpose of TIF was to revitalize communities and increase property tax values.

IV. School Tuition Organization Tax Credit

Presentation. The committee recognized Dr. Amy Rehder Harris, Administrator and Chief Economist, Tax Research and Program Analysis Section, IDR, and Ms. Victoria Daniels, Policy and Communications Division, IDR. Dr. Harris provided background information and statistical analysis on the school tuition organization (STO) tax credit, which was first reviewed by the committee in 2012. The STO tax credit is a nonrefundable tax credit equal to 65 percent of the amount of voluntary cash contributions made to qualifying STOs that provide tuition grants to eligible students. Donors are prohibited from directing contributions to a specific student or school, but can choose a specific STO. In order to be eligible to receive a tuition grant from an STO, a student must live in an Iowa household whose total income does not exceed three times the federal poverty level. Tuition grants cover all or part of the tuition at an accredited nonpublic elementary or secondary school. Dr. Harris provided historical data on STO tax credit aggregate award caps since its inception (currently $12 million per year), described the administrative process by which IDR annually allocates this aggregate cap among the STOs, and provided data on how the tax credit cap will be allocated among the existing STOs in 2016. Dr. Harris also described the STO annual reporting requirements and IDR's monitoring requirements. She provided data on STO tuition grants; STO tax credit awards and claims by taxpayer type, number, and amount; and the timing of STO tax credit claims per available tax year.

Committee Questions and Comments. Dr. Harris and committee members discussed reporting procedures, including certified enrollment numbers, and that no STO operates on a statewide basis. Members made several comments regarding tax credit award amounts, the use of the tax credit by corporations and individuals, that the tax credit equals 65 percent of the contribution amount, that the tax credit is always fully subscribed, and the eligibility of students based on the federal poverty level.

V. Volunteer Fire Fighter/Volunteer Emergency Medical Services Personnel/Reserve Peace Officer Tax Credit

Presentation. The committee again recognized Dr. Harris and Ms. Daniels. Dr. Harris provided background information and statistical analysis on the tax credit available to volunteer fire fighters, emergency medical services (EMS) personnel, and reserve peace officers for voluntary services performed in Iowa. This nonrefundable tax credit equals $100 per volunteer per year and is prorated for those who serve for less than an entire year. According to Dr. Harris, taxpayers may only claim the credit for one type of service. She described eligibility requirements under the credit for volunteer fire fighters, volunteer EMS personnel, and reserve peace officers. She also provided data on tax credit claims for both 2013 and 2014 by filing status, adjusted gross income, and county.

Committee Questions and Comments. In response to committee questions, Dr. Harris noted the increase in claims each year. Members commented regarding how the tax credit could cover training costs, that the tax credit is not need-based, and the use of the tax credit by EMS providers.

VI. Solar Energy System Tax Credit

Presentation. The committee again recognized Dr. Harris and Ms. Daniels. Dr. Harris provided background information and statistical analysis on the solar energy tax credit, a nonrefundable tax credit available for solar energy systems installed at a residence or business in Iowa. The credit is equal to 60 percent of the related federal credits for installations occurring in 2015, reduced to 50 percent for installations occurring on or after January 1, 2016. The federal credits are scheduled to expire at the end of 2016, which would also end the availability of the state credits. The credit is limited to $5,000 for each separate residential installation and $20,000 for each separate business installation. The credit also has an aggregate cap of $5 million per year. Dr. Harris explained the solar tax credit application requirements and provided data on tax credit awards by installation type, number of awards, average award, installation year, and location of installation. She also analyzed tax credit claims by tax type and amount carried forward. Additionally, she noted that the solar tax credit application process has been moved entirely online into IDR's tax credit award claim and transfer system (CACTAS), the online system supporting the tax credit administration responsibilities of IDR and other state agencies that facilitate tax credit award programs. She stated that CACTAS eliminates time-consuming data entry and makes the review process more efficient.

Committee Questions and Comments. Members made several comments regarding how claimants install meters to measure electric usage, whether the current tax amount cap should be lowered, that the tax credit is due to expire at the end of this calendar year, the possibility of decoupling the state tax credit from its federal counterpart, the tax credit's effect on job creation, and that it is nonrefundable.

VII. Machinery and Equipment Sales and Use Tax Exemptions in Iowa Code Sections 423.3(47), (48)

Presentation. The committee again recognized Dr. Harris and Ms. Daniels. Dr. Harris and Ms. Daniels discussed the machinery and equipment sales and use tax exemptions in Iowa Code section 423.3, subsections 47 and 48, and the recent administrative rule changes related to these exemptions proposed in ARC 2178C and ARC 2239C. Ms. Daniels provided a brief historical background on IDR's proposed administrative rule changes, previous efforts to address these issues through legislation, and the estimated fiscal impact of these rules to state tax revenues. Dr. Harris provided data and statistical analysis of the estimated impact these administrative rules may have on sales and use tax revenues transferred to local governments. The changes are expected to reduce local option sales tax (LOST) revenues and the amount of tax revenue transferred to the Secure an Advanced Vision for Education (SAVE) Fund, and have the potential to reduce the amount of funds transferred to flood mitigation projects under Iowa Code chapter 418 and to reinvestment district projects under Iowa Code chapter 15J because those programs rely on new sales tax revenues. She explained the limitations on using sales and use tax return data to estimate impacts to specific local governments, and discussed the assumptions IDR made in producing its estimates. Dr. Harris discussed the share of manufacturing in flood mitigation districts and provided data on the statewide distribution of sales and use tax liability by tax type for all permit holders and for manufacturers, the estimated retail taxable sales by business group in the flood mitigation districts, and the share of taxable retail sales remitted by manufacturers among the flood mitigation districts compared to statewide. Additionally, she provided data on the potential revenue impact to SAVE and the Property Tax Equity and Relief Fund, and translated those impacts into an estimated impact per pupil.

Committee Questions and Comments. In response to committee questions, Ms. Daniels responded that the effect of the rule change could equal an estimated cost to the state of $42 million, and that the rule arose in part out of the case *Sherwin-Williams Co. v. Iowa Dept. of Rev., 789 N.W.2d 417 (Iowa 2010)* and the Iowa Supreme Court's definition of "manufacturer." Some members commented that they were troubled by IDR's decision, and that the change constituted a major policy decision which should be accomplished by legislation. Other members noted that the proposed rule is going through the legislative process of consideration and review, and stated that the General Assembly may still exercise its constitutional power to nullify an adopted rule.

VIII. Committee Discussion

No person from the public accepted the committee's invitation to speak. Co-chairperson Sands stated that when considering future meetings, it might be more productive for a single presenter to provide the committee with information rather than two presenters from different agencies to provide overlapping information. Co-chairperson Bolkcom stated that the committee could function more effectively by considering evaluations of tax credits, including whether each examined tax credit accomplished a legislative objective in a cost-effective manner. Both co-chairpersons thanked committee members, presenters, and members of the public attending the meeting.

IX. Materials Filed with the Legislative Services Agency

The materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the "Committee Documents" link on the committee's Internet Site: https://www.legis.iowa.gov/committees/committee?ga=85&groupID=594.

1. Additional Information on Tax Expenditures — Department of Revenue.

2. Local Impacts of Machinery and Equipment Sales Tax Exemption Proposed Rules — Department of Revenue.
3. Machinery and Equipment Sales and Use Tax Exemption Proposed Rules.
4. Machinery and Equipment Sales and Use Tax Exemption Statutes.
5. Preliminary TIF Reporting Data — Legislative Services Agency.
6. School Tuition Organization Tax Credit — Department of Revenue.
7. Solar Energy System Tax Credit — Department of Revenue.
8. Volunteer Fire Fighter, EMS, and Reserve Peace Officer Tax Credit — Department of Revenue.

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