MINUTES

Tax Expenditure Committee

Thursday, December 12, 2019

MEMBERS PRESENT

Senator Jake Chapman, Co-chairperson
Senator Joe Bolkcom
Senator Pam Jochum
Senator Roby Smith

Representative Lee Hein, Co-chairperson
Representative Jane Bloomingdale
Representative Dustin Hite
Representative Dave Jacoby
Representative Dave Williams

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I. Procedural Business

Call to Order. The Tax Expenditure Committee was called to order at 10:01 a.m. on December 12, 2019, in Room 22 at the State Capitol Building in Des Moines by Co-chairperson Chapman.

Adjournment. Upon conclusion of the presentations, and discussion by the committee, the meeting was adjourned at 12:10 p.m.

II. Charge and Introductory Comments from Co-chairpersons, and Remembrance

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. The committee may review any tax expenditure at any time but is required to review specific tax expenditures during specified years. In 2019, the committee is required to review the Investments in Qualifying Business Tax Credit, the Wind Energy Production Tax Credit, the Renewable Energy Tax Credit, the Ethanol Promotion Tax Credit, the E-85 Gasoline Promotion Tax Credit, the Biodiesel Blended Fuel Tax Credit, and the Historic Preservation Tax Credit.

Introductory Comments. The co-chairpersons made brief introductory comments regarding the committee's role of learning and gathering information about tax credits.

Remembrance. The co-chairpersons made remarks in remembrance of Dr. Amy Rehder Harris, Research Policy Division Administrator, Department of Revenue, who passed away on November 15, 2019.

III. Investments in Qualifying Business Tax Credit

Dr. Tony Girardi, Public Services Manager 2, Research and Policy Division, Iowa Department of Revenue (IDR), presented a report on tax credits for investments in qualifying business, colloquially referred to as the “angel investor” tax credit. The angel investor tax credit is equal to 25 percent of an investor’s equity investment in a qualifying business. The credits are limited to a total aggregate amount of $2 million per fiscal year. The total amount of the tax credit that may be issued per calendar year to a natural person and the person’s spouse or dependent is $100,000. The maximum amount of tax credits that may be issued per calendar year for investments in any one qualifying business is $500,000. In order to be a qualifying business, a business must have its principal operations located in Iowa, be in operation for 6 years or less, participate in an entrepreneurial assistance program, and shall not have a net worth exceeding $10 million. The requirement that the business must participate in an entrepreneurial assistance program may be waived by the Economic Development Authority in certain circumstances.

The tax credit is not transferable, and for a tax credit claimed against the individual income tax, any in excess of the tax liability is refundable. There is a three year carryforward in excess of the taxpayer’s liability for a tax credit claimed against the corporation income, franchise, insurance premium, and moneys and credits taxes.

Since 2002, a total of $20.1 million of angel investor tax credits have been awarded. A total of $9.9 million of angel investor tax credits were awarded between the years 2011 and 2018.

Dr. Girardi provided information on angel investor tax credits in other states. There are currently 23 other states that have equity investment tax credits. In five states, the equity investor tax credit is equal to 20 percent of an investor’s equity investment. In 18 states, the equity investor tax credit is equal to 25 percent of an investor’s equity investment. In Kansas, Maryland, Virginia, and Maine, the tax credit is 50 percent.

Between 2011 and 2018, 64 qualifying businesses received equity investments totaling $51.5 million. During that same time frame, there were approximately 1,935 tax credit claims totaling $7.2 million.

Dr. Girardi discussed the process he used to analyze whether angel investor tax credits incentivize investment. Dr. Girardi used “Crunchbase,” a proprietary data source with a focus on capital investments in start-up companies. Dr. Girardi’s analysis was inconclusive about whether the angel investor tax credit spurs investment that would not otherwise occur.

Committee questions and comments. There was discussion by committee members regarding the types of businesses that received equity investments, if the businesses that received equity investments are still thriving, and the need for analysis to identify whether the state is benefitting from the angel investor tax credit.

IV. Wind Energy Production Tax Credit and Renewable Energy Tax Credit

Mr. John Good, Fiscal and Policy Analyst, Research and Policy Analyst, IDR, provided background information and statistical analysis of the Wind Energy Production (WEP) and Renewable Energy (RE) Tax Credits. The WEP Tax Credit is available for 10 years to wind facilities placed in service by July 1, 2012, and is equal to $0.01 per kilowatt-hour of electricity sold or generated for onsite consumption. No new facilities can be approved under this program and the program is fully subscribed.

The RE Tax Credit is available for 10 years to wind, biogas, biomass, methane, solar, refuse conversion, and cogeneration facilities that were placed in service by January 1, 2018. The tax credit is equal to $0.015 per kilowatt-hour of electricity, $4.50 per million British thermal units of heat for commercial purpose or of methane gas or other gas used to generate electricity, or $1.44 per one thousand standard cubic feet of hydrogen fuel. A total of 363 megawatts of the renewable energy tax credit are reserved for wind projects and 63 megawatts are reserved for other renewable energy projects. Additionally, 10 megawatts of the maximum amount of energy production capacity equivalent of all other facilities found eligible for the RE Tax Credit are reserved for solar energy conversion facilities. Each facility owner is eligible for 2.5 megawatts of nameplate capacity.

Both the WEP Tax Credit and RE Tax Credit are nonrefundable and have a seven-year carryforward period. The WEP Tax Credit may be transferred an unlimited number of times, while the RE Tax Credit may only be transferred one time.

Mr. Good discussed the high fixed costs and low operational and maintenance costs associated with renewable energy. One of the most challenging technological issues is the lack of storage for renewable energy.

During FY 2018, $1.5 million of WEP Tax Credits were awarded with an average award of $376,000. During FY 2018, $4.5 million of RE Tax Credits were awarded with an average award of $62,000. Mr. Good stated 40.7 percent of the recipients of the WEP Tax Credit were nonresidents and 19.9 percent of the RE Tax Credit recipients were nonresidents. Through 2018, 99 percent of WEP Tax Credits and 86.5 percent of RE Tax Credits were transferred. The average financial compensation exchanged for the WEP Tax Credit was 95 cents on the dollar and for the RE Tax Credit was 93 cents on the dollar. Through FY 2018, 83 percent of RE Tax Credits have been claimed and 90.5 percent of WEP Tax Credits have been claimed.

Committee questions and comments. There was discussion by committee members regarding not having enough information about capital investments made by the state and the producers in wind energy and renewable energy projects in order to review the tax credits. Mr. Good provided an explanation to questions regarding the fiscal appeal of the transferability of credits. There was discussion among the committee members about storage issues and having Dr. George Crabtree, Director of the Joint Center for Energy Storage Research, present to the committee.

V. Biofuel Retailers' Tax Credit

Dr. Mandy Jia, Senior Fiscal and Policy Analyst, Research and Policy Division, IDR, presented a report on the Ethanol Promotion (EP) Tax Credit, E-85 Gasoline Promotion (E-85) Tax Credit, E-15 Plus

Gasoline Promotion (E-15) Tax Credit, and the Biodiesel Blended Fuel (BBF) Tax Credit. The report also included information on similar tax credits offered in other states including the following: four states currently offer tax credits for retailers; twenty-one states provide tax exemptions, reductions, or refunds for biofuels; five states offer tax credits for investments in biofuel infrastructure by retailers; and eight states provide other programs to fund infrastructure. Iowa's EP Tax Credit amount ranges from $0.04 to $0.08 per gallon of pure ethanol sold through December 31, 2020, depending on how close a retailer's biofuel distribution percentage is to the credit's biofuel threshold percentage. Dr. Jia explained the formulas and provided data for both percentages. A retailer that varies from the threshold percentage by 4 points or more is not eligible for the EP Tax Credit. There were approximately 266 EP Tax Credit claims in FY 2017 totaling $700,000 in the aggregate. The E-85 Tax Credit is equal to $0.16 per gallon of E-85 (ethanol blends of E-70 to E-85). The trends for E-85 Tax Credit claims are increasing. There were approximately 304 E-85 Tax Credit claims made during FY 2017 totaling $2.5 million. The E-15 Tax Credit is equal $0.03 per gallon of E-15 gasoline sold between September 16 through May 30, and $0.10 per gallon on E-15 gasoline sold between June 1 through September 15, to account for special blending requirements of the federal Environmental Protection Agency (EPA). Beginning July 1, 2019, the federal EPA lifted restrictions on E-15 gasoline sales during each summer. There were approximately 160 E-15 Tax Credit claims during FY 2017 totaling $2.0 million. Dr. Jia also provided data on the number of stations reporting E-85 and E-15 sales by county, and the number of registered flex-fuel vehicles compared to end-of-year target goals. The BBF Tax Credit is equal to $0.035 per gallon of fuel rated from B5 to B10 (5-10 percent ethanol), and $0.055 per gallon of fuel rated B11 or higher sold through December 31, 2024. There were approximately 457 BBF Tax Credit claims made during FY 2017 totaling $19.2 million.

Committee questions and comments. There was discussion by committee members regarding the impact of flex-fuel vehicles on E-85.

VI. Historic Preservation Tax Credit

Dr. Zhong Jin, Senior Fiscal and Policy Analyst, IDR, stated the Historic Preservation (HP) Tax Credit equals 25 percent of qualified rehabilitation expenditures for the preservation of historic properties located in Iowa. The annual HP Tax Credit cap has increased from $2.4 million to $45 million since 2001. The HP Tax Credit is fully refundable and is transferable. Since 2007, 54.5 percent of the tax credits have been transferred. Dr. Jin also stated 33 other states have a similar tax credit program to the HP Tax Credit with tax credit rates ranging from 5 percent to 100 percent.

The HP Tax Credit was first introduced in 2001 and since inception, the state has awarded $402.44 million in tax credits to 894 projects. The average award during that time period was $450,162. Polk County has been awarded $123.73 million in tax credits since 2001, or about a 30.7 percent share of all tax credits awarded. Woodbury County has the largest average award with 15 projects receiving a total of $21.7 million for an average award of $1.45 million.

Approximately 30.9 percent of the tax credit claims are against the franchise tax, 39.9 percent against the corporate income tax, 21.5 percent against the individual income tax, and 7.7 percent against the insurance premium tax.

Self-reported project uses after rehabilitation include uses for residential, residential rental, commercial, mixed use, and nonprofit. The largest self-reported project expenditure was labor costs. Dr. Jin reviewed a case study on the assessed values of historic properties before and after completion of the historic preservation project.

Committee questions and comments. There was discussion by committee members about imposing a sunset on the credit.

VII. Committee Discussion

There was discussion among committee members regarding the committee's need for more detailed information about the taxpayers who receive tax credits. Co-chairperson Hein stated that tax credits may potentially be evaluated by a subcommittee during the upcoming legislative session. Co-chairperson Chapman stated that it is productive to have an overview of the tax credits and is open to reviewing proposals to modify tax credits.

VIII. Materials Filed with the Legislative Services Agency

The following materials were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the link on the committee's website:

www.legis.iowa.gov/committees/meetings/documents?committee=594&ga=ALL

1. Venture Capital — Qualifying Business (Angel Investor) Tax Credit — Department of Revenue
2. Wind Energy Production and Renewable Tax Credits — Department of Revenue
3. Wind Energy Production and Renewable Tax Credits — Utilities Board
4. Ethanol Promotion, E-85 Gasoline Promotion, and Biodiesel Blended Fuel Tax Credits — Department of Revenue
5. Historic Preservation Tax Credit — Department of Revenue
6. Additional Information from the Department of Revenue, Department of Revenue