



HF 2443 – Supplies Sales Tax Exemption (LSB 6107HV)

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Fiscal Note Version – New

Description

House File 2443 provides a sales tax exemption for the purchase of items used in certain manufacturing, research and development, data processing or storage, or recycling activities. This Bill applies to purchases made after July 1, 2014.

Assumptions

Assumptions used in the calculation of this estimate include:

- Based on survey data from 17 companies with manufacturing sites in Iowa, a ratio of reported supplies that would be exempted under the proposal to the reported value added was calculated for these companies. It is assumed that the value added is highly correlated with the amount of supplies subject to the proposed exemption.
- The ratios were averaged and applied to other Iowa manufacturing companies by North American Industry Classification System (NAICS) groupings. The survey data was available for eight manufacturing groups. These manufacturing companies in the identified NAICS grouping accounted for 82.3% of the value added in Iowa, based on the U.S. Census Bureau Annual Survey of Manufacturing (ASM) for 2011.
- Growth of value added between FY 2011 and FY 2015 for the manufacturing NAICS groups were based on ASM 2011 values and multiplied by the Gross Domestic Product (GDP) deflator of 5.8% (reported by Moody's Analytics).
- Supplies exempted under this proposal for these manufacturers in the eight NAICS groups were calculated by multiplying the average estimated supply ratio to the total value added estimated for 2014. Based on this calculation, the estimated cost of supplies exempted under this proposal for those manufacturers totaled \$281.9 million.
- For the remaining manufacturing NAICS groups that were not represented in the survey data, an average supply ratio was calculated based on the groups with data, weighted by total value-added shares. Based on this calculation, the remaining 17.7% of value added from manufacturing reflected \$53.4 million in supplies that will be exempt under the proposal.
- The proposal will also exempt research and development supplies used by nonmanufacturing companies used to conduct research in the State. The Department of Revenue Research Activities Tax Credit Evaluation Study in 2011 noted that 10.0% of research conducted in Iowa is reported by nonmanufacturing companies. Based on supply information provided by manufacturers, 28.0% of reported exempt supplies were prototype parts and supplies used in research and development (\$93.6 million). This estimate assumes that those supplies account for 90.0% of the total exempt research and development prototype materials and supplies, so that total exempt research and design supplies is estimated at \$10.4 million for nonmanufacturers.
- In FY 2015, the total of supplies exempted under this proposal is the sum of \$281.9 million (manufacturing NAICS groups included in the survey data), \$53.4 million (manufacturing NAICS groups not represented in the survey), and \$10.4 million (for nonmanufacturers) and totals \$345.8 million.

- Growth is based on Moody's analytics GDP deflator data and is assumed at 2.2% in FY 2016, 2.1% in FY 2017, 2.0% in FY 2018, and 1.9% in FY 2019.
- The effective statewide local option sales tax (LOST) rate is 0.87%.

Fiscal Impact

The fiscal impact of [HF 2443](#) will be a reduction in State sales/use and local option sales tax (LOST) beginning in FY 2015. The following table provides the estimated reduction in State sales tax, including the reduction to the General Fund and the SAVE Fund for FY 2015 through FY 2019.

Reduction in Sales Tax Resulting from Proposal					
(dollars in millions)					
	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Total State Sales Tax	\$ 20.7	\$ 21.2	\$ 21.6	\$ 22.1	\$ 22.5
General Fund Portion	17.3	17.7	18.0	18.4	18.7
SAVE Portion	3.5	3.5	3.6	3.7	3.7
LOST	\$ 3.0	\$ 3.1	\$ 3.1	\$ 3.2	\$ 3.3

SAVE = Secure an Advanced Vision for Education
 LOST = Local Option Sales Tax
 Totals may not sum due to rounding.

In addition to the data provided in the table, the Department of Revenue has indicated that there will likely be a cost savings of at least \$40,000 to the Department. This will occur due to a reduction in the number of protests and audits that will result with enactment of this Bill.

Sources

Iowa Department of Revenue, Tax Research and Analysis Section
 LSA analysis and calculations

/s/ Holly M. Lyons

March 17, 2014

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.
