

---

## FISCAL UPDATE Article

Fiscal Services Division

June 4, 2018



---

Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

### END OF SESSION – SF 2417 – INCOME AND SALES TAX MODIFICATIONS ACT

**Description.** [Senate File 2417](#) has the following effects:

- Conforms (couples) Iowa's tax year (TY) 2018 individual income tax laws with several recent changes to the federal tax code.
- Generally conforms Iowa's individual income tax laws to the federal tax code, beginning TY 2019.
- Reduces Iowa individual income tax rates, beginning TY 2019.
- Modifies Iowa's individual income tax system by reducing the number of tax brackets, reducing tax rates, and changing the basis of income taxation. The changes are effective only if two revenue targets are met. The earliest the changes may be effective is TY 2023. The two revenue targets that must be met are:
  - Actual net General Fund revenue must total at least \$8.3146 billion in the previous fiscal year.
  - Actual net General Fund revenue for the previous fiscal year must exceed the actual net General Fund revenue level for the fiscal year immediately prior to the previous fiscal year by at least 4.0%.
- Expands the sales/use tax base to include additional types of items and services. The expansion is effective January 1, 2019. The additional types of items and services include: digital goods, ride sharing, subscription services, online sellers, online marketplaces, definition of a manufacturer, and online travel company websites.
- Generally conforms Iowa's corporate income tax laws to the federal tax code, beginning TY 2019.
- Reduces Iowa's corporate income tax rates, beginning TY 2021. Iowa's alternative minimum tax and the ability of corporations to deduct federal income taxes paid are eliminated.
- The Taxpayers Trust Fund is renamed the Taxpayer Relief Fund.
- Removes the maximum \$60.0 million annual General Fund ending balance transfer cap to the Taxpayer Relief Fund, effective FY 2021.
- Makes the following changes to several existing programs financed through tax credits:
  - Extends the Innovation Fund Tax Credit, set to expire June 30, 2018, to June 30, 2023.
  - Extends the Targeted Jobs Pilot Project and associated Targeted Jobs Withholding Tax Credit, set to expire June 30, 2018, to June 30, 2019.
  - Increases the annual cap for the School Tuition Organization Tax Credit by \$1.0 million, to \$13.0 million. The income threshold for grant eligibility is increased from 300.0% to 400.0% of the federal poverty level.
  - Eliminates two income tax credits for geothermal energy systems effective January 1, 2019.
  - Makes changes to the Research Activities Tax Credit. The changes restrict the types of industries eligible for the credit and require that the taxpayer also claim a federal research tax credit for the same research and the same tax year. The changes are retroactive and apply to TY 2017 and after.
  - Eliminates the Taxpayers Trust Fund Tax Credit, beginning TY 2018.
- Makes technical corrections to the administration of tax law by the Department of Revenue.
- Makes changes to the local option sales tax, hotel and motel tax, and automobile rental excise tax.

By operation of law, changes to the State individual income tax affect the amount of revenue raised by the local option income surtax for schools, and changes to the State sales/use tax base affect the amount of revenue raised by the local option sales tax and revenue deposited to the Secure an Advanced Vision for Education (SAVE) Fund.

The individual income tax rates effective beginning TY 2019 are shown in **Table 1**.

Taxed Income Brackets*		Current Law Tax Rates	TY 2019 Rates
Lower Limit	Upper Limit		
\$ 0	\$ 1,628	0.36%	0.33%
\$ 1,629	\$ 3,256	0.72%	0.67%
\$ 3,257	\$ 6,512	2.43%	2.25%
\$ 6,513	\$ 14,652	4.50%	4.14%
\$ 14,653	\$ 24,420	6.12%	5.63%
\$ 24,421	\$ 32,560	6.48%	5.96%
\$ 32,561	\$ 48,840	6.80%	6.25%
\$ 48,841	\$ 73,260	7.92%	7.44%
\$ 73,261	And Over	8.98%	8.53%

\*Estimated TY 2019 brackets. Iowa tax brackets are indexed annually for inflation.

The individual income tax rates and income brackets, contingent upon meeting the two aforementioned revenue targets and effective for TY 2023 at the earliest, are shown in **Table 2**.

Taxed Income Brackets		Contingent Rates TY 2023
Lower Limit	Upper Limit	
\$ 0	\$ 6,000	4.40%
\$ 6,001	\$ 30,000	4.82%
\$ 30,001	\$ 75,000	5.70%
\$ 75,001	And Over	6.50%

The corporate income tax rates effective beginning TY 2021 are shown in **Table 3**.

Taxed Income Brackets		Current Law Tax Rates	TY 2021 Rates
Lower Limit	Upper Limit		
\$ 0	\$ 25,000	6.0%	5.5%
\$ 25,001	\$ 100,000	8.0%	5.5%
\$ 100,001	\$ 250,000	10.0%	9.0%
\$ 250,001	And Over	12.0%	9.8%

**Fiscal Impact.** The various State General Fund fiscal year impacts of the Act are summarized in the top portion of **Table 4**. For **Table 4**, it is assumed both revenue targets are met at the end of FY 2022 and the new individual income tax system begins with TY 2023. The first line of the top portion shows the Department of Revenue micromodel results for the individual income tax provisions, modified by some changes incorporated outside of the micromodel. The second line provides the projected impact of coupling Iowa's corporate tax laws with federal corporate income tax changes (including provisions estimated outside of the corporate income tax model), and the enactment of lower corporate income tax rates beginning TY 2021. The third line provides the estimated State General Fund impact of the changes to the sales/use tax base, with the amount transferred to the SAVE Fund excluded. The fourth line provides the net impact of changes to tax credit programs.

The projected impact on local government tax revenue is summarized in the bottom portion of **Table 4**. The first two items are revenue sources for local school districts, while the third item is city and county revenue.

<b>State General Fund Revenue Impact</b>							
Item	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Individual Income Tax	\$ -0.8	\$ -186.0	\$ -408.9	\$ -471.5	\$ -494.8	\$ -540.7	\$ -753.3
Corporate Income Tax	0.0	25.6	20.8	5.2	-41.4	-48.3	-44.9
Sales/Use Tax	0.0	55.8	117.3	126.3	134.1	142.4	148.5
Tax Credits	0.6	4.5	7.9	8.6	8.0	7.7	7.5
General Fund Revenue Impact	\$ -0.2	\$ -100.1	\$ -262.9	\$ -331.4	\$ -394.1	\$ -438.9	\$ -642.2
<b>Local Government Revenue Impact</b>							
Item	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
School Income Surtax	\$ 0.0	\$ -1.8	\$ -11.8	\$ -13.7	\$ -14.3	\$ -14.8	\$ -21.7
School Infrastructure (SAVE) Fund	0.0	11.0	23.2	25.0	26.5	28.2	29.4
Local Option Sales Tax	0.0	8.7	18.3	19.7	20.9	22.3	23.2
Local Government Revenue Impact	\$ 0.0	\$ 17.9	\$ 29.7	\$ 31.0	\$ 33.1	\$ 35.7	\$ 30.9

**Enactment Date.** The Act was approved by the General Assembly on May 5, 2018, and was signed by the Governor on May 30, 2018.

LSA Staff Contact: Jeff W. Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)

965877965877