



Iowa General Assembly

2011 Committee Briefings

Legislative Services Agency – Legal Services Division

<http://www.legis.iowa.gov/Schedules/committee.aspx?GA=84&CID=511>

LEGISLATIVE TAX EXPENDITURE COMMITTEE

Meeting Dates: [November 16, 2011](#)

Purpose. *This compilation of briefings on legislative interim committee meetings and other meetings and topics of interest to the Iowa General Assembly, written by the Legal Services Division staff of the nonpartisan Legislative Services Agency, describes committee activities or topics. The briefings were originally distributed in the Iowa Legislative Interim Calendar and Briefing. Official minutes, reports, and other detailed information concerning the committee or topic addressed by a briefing can be obtained from the committee's Internet page listed above, from the Iowa General Assembly's Internet page at <http://www.legis.iowa.gov/index.aspx>, or from the agency connected with the meeting or topic described.*

LEGISLATIVE TAX EXPENDITURE COMMITTEE

November 16, 2011

Co-Chairperson: Senator Joe Bolkcom

Co-Chairperson: Representative Tom Sands

Overview. In 2010, Iowa Acts, Ch. 1138 (S.F. 2380), established the Legislative Tax Expenditure Committee under Iowa Code § 2.45(5). The Committee is required to conduct regular review of all tax credit, withholding credit, and revenue division programs. The Committee is permitted to review any tax expenditure at any time but is required to review specific tax expenditures during specified years. In 2011, the Committee is required to review the High Quality Jobs Program, the research activity tax credit, the franchise tax credits, and the earned income tax credit.

Background on S.F. 2380. Mr. Michael Duster, Legal Services Division, Legislative Services Agency (LSA), provided a summary of the legislation that established the Committee and detailed the duties and authority of the Committee contained in Iowa Code §2.48.

State Contingent Liabilities Report. Mr. Jeff Robinson, Fiscal Services Division, LSA, provided a summary of the Tax Credits Contingent Liabilities Report, which is produced for the benefit of the Revenue Estimating Conference (REC). The report includes information on actual tax credit redemptions and information necessary to make projections for future years. In the report, tax credits can be tracked by program awards, redemptions, and by fiscal year. Mr. Robinson provided information on awarded, automatic, capped, and uncapped tax credits, identified the largest tax credit programs, described the assumptions used in making the tax credit contingent liabilities projections, and provided both historical tax credit redemption data and future tax credit redemption projections.

Report on the Maximum Aggregate Tax Credit Limit for Certain Economic Development Programs. Mr. Tim Whipple, Economic Development Authority (EDA), provided a summary of the maximum aggregate tax credit cap enacted in 2009, including subsequent amendments to the amount of the maximum aggregate cap and the programs subject to the maximum aggregate cap. The current maximum aggregate cap is \$120 million and includes the High Quality Jobs Program, Enterprise Zone Program, Housing Enterprise Zone Program, Film Promotion Tax Credit Program, corporate research credit under the Enterprise Zone Program, assistive device credit, Brownfield Program, innovation fund credit, and community-based seed capital fund credit. Mr. Whipple also provided information on the maximum aggregate cap allocations for fiscal years 2010 through 2012.

Searchable Tax Incentive Database Demonstration. Ms. Vicky Clinkscales and Ms. Tina Hoffman, EDA, provided an interactive demonstration of EDA's searchable tax incentive database. The presenters detailed the search capabilities and limitations of the website and also conducted searches for the Committee to demonstrate the types of information provided for each tax incentive recipient. The database website can be found at:

<http://www.iowalifechanging.com/annualrpt/?cmd=default&rptyear=2010>

Earned Income Tax Credit (EITC). Mr. Zhong Jin, Department of Revenue (DR), summarized historical information on the federal EITC and the Iowa EITC and the various qualifications for the EITC. The Iowa EITC is a refundable income tax credit primarily for individuals and families who have low to moderate earned income. The maximum amount of the tax credit is generally larger for those who have qualifying dependents. When the tax credit exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. Mr. Jin also provided claim and claimant information related to the

EITC, including the amount of such claims, size of claimant households, claimant income levels, claimant filing status, and claimant poverty level. He also described major reasons that claimants begin claiming the EITC and cease claiming the EITC.

Franchise Tax Credit. Iowa imposes a 5 percent franchise tax on financial institutions doing business in Iowa. The franchise tax credit is a credit that may be taken against either individual or corporate income taxes and is designed to prevent double taxation of certain bank income that is distributed to shareholders. The credit is equal to the smaller of Iowa tax liability on the pass-through bank income or the shareholder's share of franchise tax paid by the financial institution conducting business in Iowa. Ms. Angela Gullickson, DR, detailed the franchise tax credit claims by providing information on the claimant's income tax status, income tax level, and residence status. Ms. Gullickson also included historical information on the amount of the credit that is claimed per year.

High Quality Jobs Program (HQJP). Mr. Whipple provided a detailed report on the High Quality Jobs Program. The core eligibility requirements for the program include an engaged local partner (for projects larger than \$10 million), a prohibition on intrastate relocation, job creation/retention requirements, wage threshold and benefits requirements, sufficient fiscal return for the state, law-abiding business history, and an overall quality of the project. Mr. Whipple provided a description of the various types of awards available under the program. Mr. Whipple also discussed the administration and approval process for the program, provided specific project examples from the program, and summarized EDA's return on investment calculation.

Research Activities Tax Credit. Enacted in 1983, the research activities credit is 6.5 percent of Iowa's apportioned share of qualifying expenditures for increasing research activities. Ms. Amy Rehder Harris, DR, provided a review of the federal and Iowa research tax credits, an overview of similar credits available in other states, and information on the amount and type of research being conducted in the state. The presentation also included an explanation of the timing such credits have on the state's revenue and an explanation of the credit's historical use. Ms. Harris also provided the results of a recently completed survey by the DR on the use of the credit and the activities of the taxpayers claiming the credit. The sample size of the survey was small, making it difficult to draw conclusions on the impact of research expenditures. The Committee was provided a hypothetical firm example to demonstrate how Iowa's research activity credit differs from research credits in other states.

Committee Discussion. The Committee discussed the presentations made during the meeting and discussed the need for further evaluation of each credit, particularly in light of the amount of credits currently being claimed under these programs. Committee members discussed the difficulty in evaluating each credit's efficacy and return on investment. The Committee discussed the possibility of holding a joint Ways and Means Standing Committee meeting during the 2012 Legislative Session to further evaluate the specific tax credits.

LSA Contacts: Michael Duster, Legal Services, (515) 281-4800; Michael Mertens, Legal Services, (515) 281-3444.

Internet Page: <http://www.legis.iowa.gov/Schedules/committee.aspx?GA=84&CID=511>