Iowa General Assembly

2012 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: December 12, 2012

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 https://www.legis.iowa.gov/index.aspx, or from the agency connected with the meeting or topic described.*

LEGISLATIVE TAX EXPENDITURE COMMITTEE
December 12, 2012

Co-Chairperson: Senator Joe Bolkcom
Co-Chairperson: Representative Tom Sands

Overview. In 2010, Iowa Acts, Ch. 1138 (SF 2380), established the Legislative Tax Expenditure Committee under Iowa Code §§2.45(5) and 2.48. The committee is required to conduct regular review 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 2012, the committee is required to review the Iowa Fund of Funds Program, the targeted jobs withholding credits, funding of urban renewal projects with increased local sales and services tax revenue, the school tuition organization tax credits, and the tuition and textbook tax credits.

Iowa Fund of Funds Program. Dr. Amy Rehder Harris, Manager, Tax Research and Program Analysis Section, Iowa Department of Revenue (IDR), provided a history of the Iowa Fund of Funds Program and an update of the program's current status. The program was established in 2002 to leverage funds for venture capital investment with state backing through tax credits. One hundred million dollars in contingent tax credits was originally authorized. Each portfolio fund in which the Iowa Fund of Funds (Fund) invests was required to make a commitment to consider equity investments in businesses located within Iowa and maintain a physical presence within Iowa. To date, $26 million has been invested for the Fund in venture capital funds. The investments were funded by a revolving loan with contingent tax credits as collateral. In 2010, the tax credit cap was reduced from $100 million to $60 million. In February 2011, $57 million in contingent credits were issued to secure a $40 million line of credit with a February 22, 2012, maturity date. However, in fall 2011, the Fund's board learned that lenders might not renew the line of credit. Following a maturity date extension and the Fund defaulting on the line of credit, the lenders and the Fund entered into negotiations. IDR and the Iowa Attorney General's Office assisted in the agreement negotiations. The resulting agreement cures the loan default, avoids an immediate call on the full $57 million in contingent credits at $20 million per year, includes a 7- to 9-year restructuring of financing for the existing investment portfolio, preserves the $26 million investment portfolio, and caps future Fund expenses. In addition, the agreement provides for no new partners in the Fund, no new portfolio investments, no expansion of investments as of December 2011, and provides for distributions to lenders to satisfy loans. The agreement provides that a total of $25.6 million in tax credits will be redeemed, but limited to $4 million each year. Mr. Jeff Thompson, Iowa Deputy Attorney General, also provided the committee with information on and analysis of the agreement and of the Fund's status going forward. The Fund will expire in December 2027, instead of 2052. Members of the committee commended IDR and the Iowa Attorney General's Office for their work in helping negotiate the agreement to mitigate problems within the Iowa Fund of Funds Program.

School Tuition Organization Tax Credits. Ms. Angela Gullickson, IDR, summarized Iowa's School Tuition Organization (STO) Tax Credit. The nonrefundable tax credit is awarded to taxpayers who make voluntary cash contributions to a qualifying STO that provides scholarships to low-income students. There is a total school tuition organization tax credit cap of $8.75 million for tax year 2012 and subsequent tax years. Ms. Gullickson provided information on similar tax credit programs in other states. The average tax credit award in Iowa for the last six years was $2,427 and the median award was $650. Between 2009 and 2011, the average number of awards each year was 3,008. Nearly $43.8 million in donations has been received, generating over $41.4 million in scholarships for an average of 9,209 students each school year. The average scholarship has been $899. Ms. Gullickson also stated that 5.4 percent of donations have been used for administrative expenses. Effective July 1, 2009, tax credit awards could be made to corporations. In the two full tax years that corporations could make donations, they averaged less than 2 percent of all awards. According to Ms. Gullickson, higher income households have more state tax liability and a higher federal income tax rate; as a consequence, they benefit more from the federal charitable contribution itemized deduction. Ms. Gullickson also analyzed the distribution of tax credit awards by taxpayer type, income level, number of dependents, and geographic distribution.

Tuition and Textbook Tax Credits. Mr. Bob Rogers, IDR, summarized Iowa's Tuition and Textbook Tax Credits. The amount of the credit is 25 percent of the first $1,000 of eligible education expenses per dependent. The dependent must be in grades kindergarten through 12th grade at an accredited Iowa school. The credit is nonrefundable. Mr. Rogers provided information on similar tax credit programs in other states. Mr. Rogers also analyzed the distribution of tax credit claims by income level, number of dependents, and geographic distribution. Mr. Rogers also provided data on the overall utilization of the credit by eligible taxpayers and analyzed the several proposals for modifications to the credit, including imposing income limitations, increasing the percentage of the credit, and modifying the credit in conjunction with modifications to other tax credits provided by the state.

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, 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 2013.

Targeted Jobs Withholding Tax Credits. Mr. Zhong Jin, IDR, summarized the Targeted Jobs Withholding Tax Credit (TJC), which was enacted as a pilot program to help Iowa border cities compete with cities in neighboring states in attracting business investment and creating new jobs. The current pilot project cities are Sioux City, Fort Madison, Council Bluffs, Burlington, and Keokuk. TJC diverts 3 percent of the gross wages paid by an employer to each employee in awarded businesses located in urban renewal areas to pilot project cities for 10 years. In 2009, the sunset date of TJC was extended to June 30, 2013. Awarded businesses must relocate to Iowa, create at least 10 new jobs, retain at least 10 jobs, or invest at least $500,000. Wages of eligible employees must equal or exceed the average county wages. Data was also provided on the number of awards under the program, the size of such awards, the distribution of awards by pilot project city, the number of credit claims by industry, and the number of jobs and the amount of investment by businesses under the program.

Funding Urban Renewal Projects With Increased Local Sales and Services Tax Revenues. Mr. Joel Phipps, IDR, analyzed the funding of urban renewal projects by cities with increased local sales and services tax revenues, commonly referred to as Local Option Sales Tax (LOST)-Tax Increment Financing (TIF). Additional LOST revenue that is collected above the established base year for such revenue is returned to the city for urban renewal. Mr. Phipps identified other states with similar LOST-TIF programs, identified those cities in Iowa that have begun using LOST-TIF, described the administration and calculation of LOST-TIF, and addressed the impacts of LOST-TIF on other jurisdictions of a county where it is being utilized.

Urban Renewal and Tax Increment Financing Reporting. Mr. Jeff Robinson, Fiscal Division, Legislative Services Agency, and Ms. Carrie Johnson and Mr. Ted Nellesen, Iowa Department of Management, provided the committee with an update of the website development for the urban renewal reporting requirements enacted in 2012 Acts, Ch. 1124 (HF 2460). The committee was provided a brief demonstration of the website's functionality and a summary of the data being collected from the jurisdictions required to report under the new law. The public website can be viewed at https://solr.legis.iowa.gov/tif/public.

Public Comment and Committee Discussion. During public comment periods during the morning and afternoon sessions of the meeting, several members of the public addressed the committee on a variety of tax credit issues. 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 each of these programs.

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

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