



SF 164 – Income Tax Abatement, High-Demand Jobs (LSB1068XS)
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Fiscal Note Version – New

Description

Senate File 164 exempts wages received through employment in high-demand jobs from the State individual income tax if the jobholder meets certain Iowa residency requirements. The exemption applies to new residents. A current resident of Iowa is not eligible for the income tax exemption unless the individual graduates from an Iowa community college, private college or university, or Regents institution after the effective date of the Bill.

The income tax exemption period for qualified jobholders is three or five years. The length of the income tax exemption period is:

- Five years if the jobholder lives in one of Iowa's 10 lowest populated counties.
- Five years if the jobholder lives in an Iowa city with a population of less than 15,000.
- Three years if the jobholder lives in a rural area of one of Iowa's 89 highest populated counties.
- Three years if the jobholder lives in an Iowa city with a population of 15,000 or more.

The definition of "high-demand job" has two components under the Bill:

- Iowa Code section 84A.1B(13A),¹ as enacted in 2018 Iowa Acts, chapter **1067** (Future Ready Iowa Act), allows the Workforce Development Board to designate as "high-demand" jobs where work opportunities exist and qualified applicants are lacking. Each community college is also allowed to designate up to five regional high-demand jobs.
- Cities and counties may petition the relevant community college to designate a job category as a high-demand job. Each community college may designate up to 10 job categories as high-demand jobs.

The change applies retroactively to tax year (TY) 2019.

Assumptions

- Using Department of Workforce Development employment projections, the Department of Revenue developed estimates of the annual number of high-demand job openings that will occur in Iowa.
- Fifty percent of high-demand job openings will be filled each year.
- Ten percent of the job openings that are filled will not qualify for the tax exemption. It is assumed that these positions will be filled by Iowa residents who are not qualified graduates.
- Fifty-three percent of qualified jobholders will live in locations that qualify for a five-year tax exemption. The remainder will qualify for a three-year exemption.
- The Bill allows the qualified jobholder to choose when to start the tax exemption period. Thirty percent of qualified jobholders will choose the first year of employment as the first year of the tax exemption and 70.0% will choose the second year.

¹ Iowa Code section 84A.1B(13A) is not effective until July 1, 2019.

- A portion (5.0% to 10.0%) of qualified jobholders will ultimately not benefit from the tax exemption due to other components of their income situation, such as business or capital losses.

The results of the previous assumptions are displayed in **Table 1**. The assumptions were used as inputs to the Iowa Department of Revenue income tax model. The model produced the projected reductions in income tax liability across all qualified jobholders by tax year. **Table 2** provides the tax model results.

Tax Year (TY)	Number of High- Demand Job Openings	Filled Openings	Qualified Filled Openings	Small City/County Jobs, Five- Year Exemption	Three- Year Exemption	Number Benefiting From Tax Exemption Each Tax Year
TY 2019	16,960	8,480	7,632	4,045	3,587	2,177
TY 2020	16,287	8,144	7,330	3,885	3,445	9,338
TY 2021	15,666	7,833	7,050	3,737	3,313	16,170
TY 2022	15,099	7,550	6,795	3,601	3,194	21,791
TY 2023	14,562	7,281	6,553	3,473	3,080	25,248
TY 2024	14,065	7,033	6,330	3,355	2,975	27,219

Tax Year (TY)	Number Benefiting From Tax Exemption Each Tax Year	Average Tax Benefit Per Benefiting Jobholder *	Total Income Tax Reduction in Millions *
TY 2019	2,177	\$ 2,784	\$ 6.1
TY 2020	9,338	2,914	27.2
TY 2021	16,170	3,035	49.1
TY 2022	21,791	3,126	68.1
TY 2023	25,248	3,643	92.0
TY 2024	27,219	3,743	101.9

* The average and total tax reductions include the local option surtax for schools.

Tax model results are converted to fiscal year State General Fund and local option surtax revenue impacts using the following assumptions:

- The contingent Iowa individual income tax system enacted in [SF 2417](#) (2018 Tax Modifications Act) will become effective beginning TY 2023.
- Local option income surtax revenue represents 3.0% of the total tax benefit displayed in **Table 2**.
- Twenty-five percent of the revenue reduction will be in the form of reduced withholding tax receipts. The jobholders will realize the remaining benefit through increased tax refunds and decreased tax payments made when filing individual income tax returns for the tax year.
- The Bill requires eligible jobholders who become ineligible before the end of the three- or five-year exemption to add back to net income on their next income tax return the exempt income from previous years. It is assumed that 2.0% of the previous fiscal year's tax benefit will be recovered through the income tax process due to lapses in jobholder eligibility (the jobholder quits the eligible job or is fired or otherwise becomes ineligible).

Fiscal Impact

The new tax exemption for qualified high-demand jobholders is projected to reduce net General Fund revenue and local option surtax for school revenue by the amounts listed in **Table 3**. The revenue reductions are projected to continue in future fiscal years, increasing at the rate of wage growth for qualified jobs.

Fiscal Year	Total Income Tax Reduction	General Fund Revenue Reduction	Local Option Surtax Revenue Reduction
FY 2020	\$ 9.2	\$ 8.9	\$ 0.3
FY 2021	28.8	27.9	0.9
FY 2022	49.3	47.8	1.5
FY 2023	67.9	65.9	2.0
FY 2024	89.0	86.3	2.7

The Department of Revenue reports that the one-time staff and programming expenses associated with implementing the new income tax credit will equal an estimated \$240,000, and the Department will also need to assign compliance staff to audit the new exemption for fraud.

Sources

Department of Revenue
Department of Workforce Development
Legislative Services Agency analysis

/s/ Holly M. Lyons

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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.
