



[HF 278](#) – Chief Executive Officer Pay, Income Taxation (LSB2091YH)
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Fiscal Note Version – New

Description

[House File 278](#) relates to the taxation of publicly traded companies under the Iowa corporate income tax, bank franchise tax, and insurance premium tax.

The Bill requires publicly traded corporate and bank franchise tax payers to add back to net income for Iowa tax purposes any Chief Executive Officer (CEO) compensation allowed as a deduction from the company's net income for federal tax purposes. In addition to adding back any CEO compensation that was allowed as a federal income tax deduction, entities subject to the Iowa corporate or bank franchise tax are required to add the amount of CEO compensation to net income.

In the case of publicly traded insurance companies, the business is required to annually remit to the State General Fund an amount equal to 1.0% of CEO compensation for the year, multiplied by a factor that represents the percent of CEO total compensation attributable to the entity's business in the State when compared to the total compensation of the CEO.

The change is effective for tax years beginning on or after January 1, 2020.

Background

Iowa taxes entities subject to the Iowa corporate income tax at rates ranging from 6.0% to 12.0%. For multistate companies, the net income of the company is apportioned, and the tax applies only to the portion of net income that is attributable to sales in Iowa.

Iowa taxes entities subject to the Iowa bank franchise tax at a rate of 5.0% of net income. For multistate banks, the net income is apportioned, and the tax applies only to the portion of net income that is attributable to Iowa operations.

Iowa taxes entities subject to the insurance premium tax at a rate of 1.0% of net premiums on policies sold in Iowa. The Bill requires an Iowa apportionment percentage to be calculated for the company based on insurance sales within Iowa. That Iowa apportionment percentage is applied to the compensation amount of the CEO, and a tax rate of 1.0% is applied.

Assumptions

- Internal Revenue Code (IRC) section [162\(m\)\(1\)](#) limits the annual business expense deduction for any single employee to \$1.0 million.
- Based on a Department of Revenue review of Security and Exchange Commission filings, the average annual nonequity compensation of publicly traded companies filing Iowa corporate, bank franchise, and insurance company tax returns is estimated to be \$3.0 million.
- Based on the provisions of the Bill and the two preceding assumptions, the annual net income subject to apportionment of publicly traded corporate and franchise tax filers will

increase by \$4.0 million per entity. For insurance premium tax filers, the annual amount subject to apportionment is assumed to increase \$3.0 million per entity.

- Approximately 20,000 entities file annual Iowa corporate income tax returns, 1,400 file insurance premium tax returns, and 500 file bank franchise tax returns. There is no accurate source as to the number of these returns that are from publicly traded companies. For the purposes of this projection, the numbers of entities impacted by the change are assumed to be:
 - 440 corporate income tax filers.
 - 50 bank franchise tax filers.
 - 15 insurance companies.
- The average apportionment for publicly traded corporate, bank franchise, and insurance premium tax returns is assumed to be 1.04%, meaning 1.04% of the average company's net income (or insurance premiums) is assumed to be apportioned to Iowa.
- The average marginal tax rate is assumed to be 8.0% for corporate income tax filers and 5.0% for bank franchise tax filers. Due to the corporate income tax changes enacted in [SF 2417](#) (2018 Tax Modifications Act), the average marginal corporate income tax rate for tax year 2022 and after is assumed to equal 6.6%.
- Twenty-five percent of the calculated tax increase is assumed to be received by the State in the first fiscal year and 75.0% in the second fiscal year.

Fiscal Impact

The corporate income, bank franchise, and insurance premium tax changes are projected to increase net General Fund revenue by \$0.4 million in FY 2020, \$1.6 million in FY 2021, and \$1.3 million in future fiscal years.

Sources

Department of Revenue
Economic Policy Institute CEO compensation [report](#)
Security and Exchange Commission

/s/ Holly M. Lyons

February 25, 2019

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.
