



SF 133 – New Resident Income Tax Credit (LSB1552SS)
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Fiscal Note Version – New

Description

Senate File 133 creates a New Resident Tax Credit. The credit reduces the tax liability for a taxpayer working in Iowa who was not an Iowa resident during the previous two tax years. The tax credit is an amount equal to a percentage of the income tax the taxpayer would otherwise owe. The tax credit percentage is:

- First year, 20.0%
- Second year, 40.0%
- Third year, 60.0%
- Fourth year, 80.0%
- Fifth year, 100.0%

The taxpayer is allowed to first claim the tax credit in either the first or second year of Iowa residency. The taxpayer is required to take the tax credit over five consecutive tax years. The tax credit is available for tax years beginning on or after January 1, 2020.

Assumptions

- The term “working in the State” as used in the Bill is assumed to mean an individual with wage or business income subject to Iowa income tax.
- For taxpayers using filing status 2 (married taxpayers filing a joint return), the tax credit applies to all tax liability of the couple. If the married couple files separately, or separately on a combined return (filing status 3 or 4), the tax credit is assumed to apply only to the spouse who qualifies as a new resident.
- The tax credit is assumed to equal Iowa total tax (line 42 of the 2018 Iowa 1040 individual income tax [form](#)) minus any nonrefundable and refundable tax credits utilized on the tax form. If this calculation yields a result of \$0 or a negative amount, the New Resident Tax Credit is assumed to be \$0 for that tax return that year.
- From tax year (TY) 2015 through TY 2017, the average number of households reporting they moved into Iowa on their Iowa income tax return was 40,967. Of those new residents, an average of 39,222 households reported wage and/or business income.
- The Bill allows the qualified new resident to choose when to start the tax exemption period. Thirty percent of qualified taxpayers will choose the first year of residency as the first year of the tax exemption and 70.0% will choose the second year.
- Given the number of years a new resident may claim the credit (five) and given that the new resident is allowed to choose to first utilize the credit in year one or year two of residency, the new credit takes six tax years to reach full utilization. The number of tax returns assumed to potentially benefit from the new tax credit equals:
 - TY 2020 = 11,767
 - TY 2021 = 50,989
 - TY 2022 = 90,211
 - TY 2023 = 129,433

- TY 2024 = 168,655
- TY 2025 = 184,343
- This analysis employs the Department of Revenue individual income tax micro model to develop tax year estimates of the tax reduction associated with the new tax credit.
- A portion (approximately 15.0%) of qualified new residents with wage and/or business income will ultimately not benefit from the tax exemption due to other components of their income situation (business losses, capital losses, or other tax credits).
- A portion of the taxpayers who claim the credit in one year will move away or otherwise become ineligible for the credit before their full five years have passed. This estimate assumes that after the initial year (TY 2020), 20.0% of the taxpayers will move away or otherwise become ineligible for credits in future years.
- **Table 1** shows the number of tax returns assumed to benefit from the new tax credit, the average tax benefit, and the total income tax reduction, by tax year.

Tax Year (TY)	Number Benefiting From Tax Credit Each Tax Year	Average Tax Benefit Per Benefiting Tax Return *	Total Income Tax Reduction in Millions *
TY 2020	10,060	\$ 540	\$ 5.4
TY 2021	35,134	739	26.0
TY 2022	62,322	1,126	70.2
TY 2023	85,000	1,469	124.9
TY 2024	110,261	1,896	209.1
TY 2025	128,787	1,896	244.2

* 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 2.9% of the total tax benefit displayed in **Table 1**.
- For TY 2020, 30.0% of the revenue reduction will be in the form of reduced withholding and estimate payment receipts. The new residents will realize the remaining benefit through increased tax refunds and decreased tax payments made when filing individual income tax returns for the tax year. In future tax years, the withholding and estimate payment percentage increases in increments and will equal 90.0% for TY 2023 and after.

Fiscal Impact

The New Resident Tax Credit is projected to reduce net General Fund revenue and local option surtax for school revenue by the amounts listed in **Table 2**. The revenue reductions are

projected to continue in future fiscal years, increasing at the rate of income tax growth for qualified new residents.

Fiscal Year	Total Income Tax Reduction	General Fund Revenue Reduction	Local Option Surtax Revenue Reduction
FY 2020	\$ 0.8	\$ 0.8	\$ 0.0
FY 2021	9.8	9.5	0.3
FY 2022	41.8	40.6	1.2
FY 2023	105.3	102.3	3.0
FY 2024	162.6	158.0	4.6
FY 2025	224.6	218.3	6.3

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 \$12,000, and the Department will also need to assign compliance staff to audit the new credit at an annual administrative cost of \$40,000 per year.

Sources

Department of Revenue
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.
