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**SF 297** – High-Demand Occupation, Income Tax Credit (LSB2303XS)  
Analyst: Jeff Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)  
Fiscal Note Version – New

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**Description**

[Senate File 297](#) creates a High-Demand Occupation Tax Credit. The new tax credit is available to community college graduates with credentials that qualify the graduate for a high-demand job. A qualifying credential includes a postsecondary certificate, a diploma, or a degree that is not more than an associate degree.

A high-demand job includes the fields of science, technology, engineering, and mathematics, and/or occupations aligned with the six career and technical education service areas listed in Iowa Code section [256.11](#)(5)(h). The six areas include:

- Agriculture, food, and natural resources.
- Arts, communications, and information systems.
- Applied sciences, technology, engineering, and manufacturing.
- Health sciences.
- Human services.
- Business, finance, marketing, and management.

The tax credit is not transferable or refundable, but unused portions of the credit may be carried forward for up to five additional tax years. If a tax credit recipient enters active military duty or enrolls in a public or private college or university, an additional two-year carryforward period is allowed. The tax credit applies to tax years beginning on or after January 1, 2020.

**Assumptions**

- Based on a Department of Workforce Development report covering the education outcomes of Iowa community college students, the Department of Revenue estimates that the average annual number of students graduating with a degree in the qualified areas is approximately 5,000.
- Using the same Department of Workforce Development report, 83.3% of the 5,000 annual qualified graduates (4,165) are assumed to remain Iowa residents and benefit from the tax credit.
- The tax credit qualifications require an agreement between the student and the community college. The agreement must have a time length of at least two years. Therefore, it is assumed the first graduates who may benefit from the new tax credit will graduate in 2021.
- The assumed 2018 average community college tuition and mandatory fee cost of an associate degree is \$10,560 (64 credit hours at \$165 per credit hour). The average cost per credit hour is assumed to increase 2.0% each year through 2026.
- The average starting wage for qualified occupations is assumed to be \$34,000 in 2021 and will increase to \$49,900 by 2026. Wages earned in the first year of employment are assumed to equal 50.0% of the annual wages of a qualified occupation.
- The tax owed by individuals with wage income equal to the average income for qualified occupations was estimated by the Department of Revenue for each tax year. For tax year 2023 and after, the contingent income tax system enacted in [SF 2417](#) (2018 Tax Modifications Act) is assumed to be in effect.

- The statewide average local option income surtax for schools is assumed to equal 2.9% of State income tax liability.
- For tax year TY 2021, 30.0% of the revenue reduction will be in the form of reduced withholding and estimate payment receipts. The taxpayers will realize the remaining benefit through increased tax refunds and decreased tax payments made when filing individual income tax returns for the tax year. For TY 2022, the withholding and estimate payment percentage is assumed to be 40.0%. With implementation of the contingent tax system, the withholding and estimate payment percentage is assumed to be 90.0% for TY 2023 and after.

**Fiscal Impact**

The High-Demand Occupation Tax Credit is projected to reduce net General Fund revenue and local option surtax for school revenue by the amounts listed in **Table 1**. The revenue reductions are projected to continue in future fiscal years, increasing at the rate of income tax growth for qualified occupations.

| <u>Fiscal Year</u> | <u>Total Income Tax Reduction</u> | <u>General Fund Revenue Reduction</u> | <u>Local Option Surtax Revenue Reduction</u> |
|--------------------|-----------------------------------|---------------------------------------|--|
| FY 2021            | \$ 0.4                            | \$ 0.4                                | \$ 0.0                                       |
| FY 2022            | 4.7                               | 4.6                                   | 0.1  |
| FY 2023            | 12.7                              | 12.3                                  | 0.4  |
| FY 2024            | 15.6                              | 15.2                                  | 0.4  |
| FY 2025            | 23.3                              | 22.6                                  | 0.7  |
| FY 2026            | 31.8                              | 30.9                                  | 0.9  |
| FY 2027            | 37.3                              | 36.2                                  | 1.1  |

**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.

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