



HF 711 – Volunteer Fire Fighter Pension and Income Tax Deduction (LSB1504HV)
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Fiscal Note Version – New

Description

House File 711 requires the State Fire Service and Emergency Response Council, in consultation with the Department of Administrative Services (DAS) and the Treasurer of State (TOS), to establish a Length of Service Award Program for volunteer fire fighters under 457(e)(11) of the Internal Revenue Code. The decision by a volunteer fire fighter to participate in the Program is irrevocable and is in lieu of the Volunteer Fire Fighter and Emergency Medical Services (EMS) Personnel and Reserve Peace Officer Tax Credit. This Bill creates a standing unlimited appropriation from the State General Fund of an amount equal to \$100 each fiscal year per participant in the Program. The Bill takes effect January 1, 2020.

Background

Since January 1, 2014, the Volunteer Fire Fighter and EMS Personnel and Reserve Peace Officer Tax Credit has been available for volunteer fire fighters who meet certain conditions. If the volunteer serves the entire year, the volunteer is eligible to claim a tax credit that equals \$100. The tax credit is nonrefundable with no carryforward and is claimed against the individual income tax. If the volunteer does not serve the entire year, the \$100 tax credit is prorated based on the number of months the volunteer served. If an individual serves in more than one position as a volunteer fire fighter, volunteer EMS personnel, or reserve peace officer, the tax credit can only be claimed for one position.

The Department of Revenue reports that in tax year (TY) 2017, 13,396 Iowa households claimed a total of \$1.4 million in Volunteer Fire Fighter and EMS Personnel and Reserve Peace Officer Tax Credits.

Assumptions

Program Startup Costs

- The State Fire Service and Emergency Response Council will develop and submit to the State Fire Marshal's Office for adoption administrative rules to provide contribution and eligibility requirements for the Program, as well as rules relating to how the Program funds will be collected, invested, and distributed.
- The Department of Public Safety (DPS) will use existing staff to create and manage the Program; however, additional staff may be required in the future if the program grows.
- The estimated FY 2019 budget for the State Fire Marshal's Office is \$5.0 million.
- The DAS anticipates a negligible fiscal impact as a result of serving in a consultation role as a resource to provide feedback for this Program. However, if the agency's intended role is to create and manage the Program, there may be a significant fiscal impact.
- The TOS anticipates a negligible fiscal impact as a result of serving in a consultation role as a resource to provide for this Program. However, if the agency's intended role is to create and manage the Program, there may be a significant fiscal impact.

Volunteer Fire Fighter and EMS Personnel and Reserve Peace Officer Tax Credit

- According to the Department of Revenue, of the 13,396 Iowa households that claimed the tax credit in TY 2017, an estimated 10,986 (82.0%) were volunteer fire fighters. Of this number, it is assumed that approximately 7,000 were between the ages of 25 and 45 and that the same number may utilize this Program.
- This Program only applies to volunteer fire fighters. If a volunteer fire fighter is also an emergency services provider, the volunteer cannot participate in both the Volunteer Fire Fighter and EMS Personnel and Reserve Peace Officer Tax Credit and the Length of Service Award Program.
- The number of taxpayers who participate in the Length of Service Award Program equals the number of taxpayers estimated to no longer claim the tax credit (7,000).
- The number of fire fighters participating in the Program is estimated to increase over time with population growth.
- Once a volunteer fire fighter chooses to participate in the Program, the decision is irrevocable.
- Volunteer fire fighters who do not file an income tax return are ineligible for the current tax credit.

Length of Service Award Program

- It is unknown how many volunteer fire fighters who currently do not receive the tax credit will be eligible for the Program.
- If large numbers of volunteer fire fighters who currently do not receive the tax credit choose to participate in the Program, the General Fund standing unlimited appropriation may increase beyond the amounts listed in the table below.
- The Program rules will be in place by January 1, 2020, and those who want to participate will sign up for the Program between January 1 and June 30, 2019 (FY 2020).

Fiscal Impact

Program Startup Costs

The DPS anticipates some one-time costs in developing the administrative rules and establishing the Program; however, these costs are anticipated to be minimal. Any ongoing costs to facilitate the Program will be funded out of the State Fire Marshal's Office General Fund appropriation. Depending on the success of the Program, additional resources may be required by the Department in the future to administer the Program.

Both the DAS and the TOS anticipate minimal costs from serving in a consultation-only role.

Length of Service Award Program General Fund Appropriation

An annual standing appropriation from the General Fund of \$100 per participant will result in increased General Fund expenditures. Any funds not expended for the Program will revert back to the General Fund.

Volunteer Fire Fighter and EMS Personnel and Reserve Peace Officer Tax Credit

Individuals who participate in the Length of Service Award Program will become ineligible for the Volunteer Fire Fighter and EMS Personnel and Reserve Peace Officer Tax Credit. This will decrease the number of refunds paid from the General Fund by increasing the individual income tax liability, resulting in increased revenue to the State General Fund.

Total Fiscal Impact

The General Fund impact of [HF 711](#) will be the largest in FY 2020. As the Program becomes established, it is assumed that the cost for the Program will be partially offset by the difference in the tax credit, resulting in a lower fiscal impact beginning in FY 2021.

Estimated General Fund Impact of HF 711

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Fund Program Appropriation	-\$480,000	-\$477,000	-\$482,000	-\$489,000	-\$490,000
Personal Income Tax Receipts	0	445,000	457,000	462,000	471,000
Net General Fund Impact	-\$480,000	-\$32,000	-\$25,000	-\$27,000	-\$19,000

The cost of the Program will depend on the number of participants. For every 500 volunteer fire fighters who do not currently file income tax returns or currently file returns with no tax liability that participate in the new Program, an additional \$50,000 will be added to the annual cost of the Program increasing the General Fund Program Appropriation line in the table above.

Reducing the number of people taking the income tax credit will increase personal income tax liability, thereby increasing local school surtax receipts by approximately \$25,000 per year.

Sources

Department of Public Safety
Department of Administrative Services
Treasurer of State
Department of Revenue

/s/ Holly M. Lyons

April 1, 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.
