



SF 481 – High-Demand Occupation, Income Tax Credit (LSB2303SV)
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Fiscal Note Version – New

Description

Senate File 481 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 means a job included on a list of regional high-demand jobs maintained by each community college pursuant to 2018 Iowa Acts, chapter **1067**, section 7 (Future Ready Iowa Act). That section (effective July 1, 2019) requires each community college to maintain a list of not more than five regional high-demand jobs within the community college's region. A community college's job list is to include jobs where the community college determines work opportunities are available and qualified applicants are lacking.

The tax credit earned by a qualified graduate is equal to the gross tuition and mandatory fee total paid by the graduate. The credit is limited to no more than \$5,000 for an academic year and no more than \$10,000 over the taxpayer's lifetime.

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 job 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.
- It is assumed that each community college will maintain a list of five high-demand jobs, and each job on the list will require graduation credentials from a community college. With 15 community colleges in Iowa, a maximum of 75 job titles eligible for the tax exemption will be available at any one time.
- 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.
- Given the six tax years a graduate is allowed to claim the credit (initial tax year plus five years allowed for unused credit carryforward), and given that the credit is not refundable, the average tax benefit over the six years as calculated by the Department of Revenue is \$8,800. Therefore, only a small percentage of the graduates will have their tax credit limited by the inclusion of a credit maximum of \$10,000. To adjust for the impact of the \$10,000 lifetime credit cap, the calculated annual fiscal year impact of the tax credit is lowered by 3.0% beginning FY 2024.
- The statewide average local option income surtax for schools is assumed to equal 2.9% of State income tax liability.
- For 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.

Fiscal Year	Total Income Tax Reduction	General Fund Revenue Reduction	Local Option Surtax Revenue Reduction
FY 2021	\$ 0.4	\$ 0.4	\$ 0.0
FY 2022	4.6	4.5	0.1
FY 2023	12.6	12.2	0.4
FY 2024	15.0	14.6	0.4
FY 2025	22.3	21.7	0.6
FY 2026	30.6	29.7	0.9
FY 2027	35.8	34.8	1.0

The Department of Revenue reports that the computer system updates needed to allow administration, review, and tracking of the new tax credit will result in one-time costs to the Department of \$240,000. In addition, the review of graduate qualification tax credit application documents filed by community colleges will increase annual Department staff expenditures by \$120,000.

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.
