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**SF 606** – Enterprise Zone, Housing Business, Investment Tax Credit (LSB1907SV)  
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Fiscal Note Version – New

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**Description**

[Senate File 606](#) allows additional tax credits for projects approved prior to July 1, 2015, under the former Housing Enterprise Zone (HEZ) Program to qualify as transferable tax credits. The change is retroactive to May 30, 2014.

**Background**

Under provisions of previous law governing tax credits issued under the HEZ Program, tax credits could be transferred if specified conditions were met. One specification to allow credits to be transferred required the Iowa Economic Development Authority (IEDA) to be notified by June 30, 2014, that the housing project was located within a blighted and/or brownfield area and that the tax credits would be transferred upon project completion.

Tax credits that are not transferable have value to the current holder if the current holder has sufficient Iowa income tax liability to benefit from the credits over the course of seven tax years. If the tax credit recipient does not have sufficient Iowa income tax liability, the awarded tax credits have limited or no value to the recipient and have no tax credit redemption cost to the State General Fund.

The provisions of the Bill will establish additional situations under which a holder of these tax credits will be allowed to transfer credits that do not meet the current transferability requirements.

**Assumptions**

- The Department of Revenue (Department) estimates that 113 projects, totaling \$11.9 million in potential HEZ tax credits could have those credits become transferable under the Bill. The amounts exclude any project for which the redemption of tax credits for the project has either started or has been completed. The list also excludes any project for which the IEDA has approved the transfer of credits under existing law. The \$11.9 million is broken down into three status categories:
  - Thirty-four completed projects totaling \$2.5 million.
  - Twenty-one in-process projects totaling \$4.0 million.
  - Fifty-eight projects that are not yet started totaling \$5.4 million.
- It is assumed that completed projects will start claiming credits in FY 2020.
- It is assumed that 50.0% of the in-process projects will complete work in FY 2020 and begin tax credit redemption in FY 2021. The remaining 50.0% of in-process projects are assumed to be redeemed as provided under current law.
- It is assumed that 10.0% of projects that are not yet started will apply for transferability and finish during FY 2020 and begin credit redemption during FY 2021. The remaining projects in this category will either never be completed or will utilize current law to redeem tax credits.
- Transferred tax credits under the HEZ Program typically take five years to be fully redeemed. The average tax credit redemption pattern of transferred housing tax credits is:
  - First year = 38.0%

- Second year = 42.0%
- Third year = 8.0%
- Fourth year = 6.0%
- Fifth year = 6.0%

The first redemption tax year for the tax credits in question is assumed to be tax year 2019, with the first State General Fund impact of the redemption occurring in FY 2020.

**Fiscal Impact**

The tax credit change is projected to reduce net General Fund revenue by the following amounts:

- FY 2020 = \$0.9 million
- FY 2021 = \$2.0 million
- FY 2022 = \$1.3 million
- FY 2023 = \$0.4 million
- FY 2024 = \$0.3 million
- FY 2025 = \$0.2 million

The tax credit change is not projected to have a fiscal impact beyond FY 2025.

**Sources**

Iowa Department of Revenue  
Iowa Economic Development Authority

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/s/ Holly M. Lyons

April 9, 2019

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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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