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Fiscal Note

Fiscal Services Division

SF 631 – Tax Code Changes (LSB2746SV)
Analyst: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

Senate File 631 makes changes to the application and administration of Iowa sales, property, and income (individual, corporate, bank franchise, and credit union) tax provisions. The Bill has various applicability dates including retroactive applicability dates.

Explanation and Assumptions

Provisions with Estimated Fiscal Impacts

Refer to page 11 for the table of projected General Fund revenue change by the provisions outlined below.

Division I, Sections 9 and 12: Requires nonresident taxpayers claiming the Early Childhood Development (ECD) Tax Credit to prorate the ECD claims based on the ratio of Iowa-source income to income from all income reported on their tax return. The change is effective beginning tax year (TY) 2019. The change is projected to increase net General Fund revenue. Assumptions used in developing the estimate include:

- The Department of Revenue (DOR) estimated the impact on nonresident taxpayers using the DOR model of all Iowa income tax returns. The model results estimate that the change will increase total tax liability by $38,000 per tax year, beginning TY 2019.
- Of the $38,000 estimated revenue increase for TY 2019, the Legislative Services Agency (LSA) estimates that 5.0% will impact FY 2019 through increased withholding and estimate payments, and 95.0% will impact FY 2020.
- Of the $38,000 estimated increase in TY 2020 and after, the LSA estimates that 17.0% will impact the fiscal year in which the tax year begins, and 83.0% will impact the next fiscal year.

Division I, Section 11: Extends the tax benefits of like-kind exchanges for Iowa corporate income and bank franchise tax purposes to include the exchange of all property, not just real property, for TY 2019. The change is projected to reduce net General Fund revenue by $0.9 million over two fiscal years. The DOR developed the estimate from an analysis prepared by the federal Joint Committee on Taxation.

Division III, Section 20: Specifies that both carpentry repair and carpentry installation are taxable services subject to Iowa sales tax.[1] Current law lists the term "carpentry" as a service subject to Iowa sales tax. The change is effective July 1, 2019. The change is projected to increase sales tax revenue. The following assumptions were used to estimate the revenue increase:

- A total of $16.9 million in carpentry services will become newly subject to sales tax in FY 2019, and the total will increase 2.3% each fiscal year.

[1] In this document, the term "sales tax" includes use tax where applicable.

- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division III, Sections 21 and 31: Exempts grain bins and the materials used to build and repair grain bins from the sales tax. The change is effective retroactive to January 1, 2015. A provision is included that limits total refunds of sales tax already remitted to the State to no more than $25,000. The following data source and assumptions were used to estimate the revenue increase:

- Iowa on-farm grain storage capacity statistics from the National Agricultural Statistics Service were used to estimate Iowa grain storage capacity, replacement rate, and replacement costs.
- Grain storage capacity in Iowa equals 2.12 billion bushels.
- New and replacement capacity equals 2.4% of each year's existing capacity.
- The cost of new and replacement capacity is assumed to equal $2.00 per bushel of capacity, and that cost is assumed to increase 2.3% per year.
- No additional cost is assumed for maintenance and repair costs.
- The retroactive aspect of the sales tax exemption means taxpayers who have yet to submit the tax that is due on purchases made prior to July 1, 2019, will not have to do so. The DOR estimates that adoption of the retroactive provision of the sales tax exemption will result in the loss of $2.0 million in back sales taxes that are currently due and under audit and/or protest. The lost back taxes include State sales tax, school infrastructure tax, and local option sales tax. The $2.0 million loss is assumed to impact FY 2019 receipts. The $25,000 in refunds authorized in Section 21 of the Bill is assumed to be paid in FY 2020.
- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division III, Section 22: Adds supplies and replacement parts purchased for use at property that is centrally assessed to the exclusions from the existing machinery and equipment sales tax exemption. The change is retroactive to January 1, 2016. The following data sources and assumptions were used to estimate the revenue increase:

- Department of Revenue use tax returns from businesses assumed to be centrally assessed companies.
- Modern Materials Handling Magazine surveys.
- In FY 2018, centrally assessed business purchases subject to use tax totaled an estimated $352.8 million. An amount equal to 3.0% of those purchases ($10.58 million) is assumed to be impacted by the Bill.
- The value of purchases made by centrally assessed businesses and impacted by the change will increase 5.0% per year.
- Without the retroactive change, an estimated $0.9 million in sales tax refunds related to this issue is expected to be paid in FY 2020.
- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division III, Sections 24 Through 26: Removes the 200-sale threshold for remote sellers, marketplace facilitators, and referrers. Iowa law currently requires these types of entities, if they do not have traditional sales tax nexus in Iowa, to collect and remit sales tax if they complete at least 200 sales to Iowa customers in a year or have taxable sales to Iowa customers of at least $100,000 in a year. With this change, remote sellers will only be subject to the $100,000 threshold. The change is effective July 1, 2019. The following assumptions were used to estimate the revenue decrease:

- The DOR estimates that for FY 2020, 956 out-of-state retailers will have at least 200 Iowa transactions in a year but less than $100,000 in Iowa sales. The Department expects that number to increase by 10.0% per year for the next five years.
- The average yearly Iowa sales amount for the impacted retailers is assumed to be $18,600 in FY 2020, and that amount is assumed to increase 2.3% each year.
- The businesses impacted by the change are assumed to stop collecting and remitting tax to Iowa as a result of the change.
- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division V: Allows telephone companies that meet certain criteria to be classified as competitive long distance telephone companies. This classification allows qualified property of the companies to be centrally assessed by the DOR and taxed in the same manner as commercial property. Compared to the situation under current law, enactment of the changes will reduce the property tax owed by the companies, beginning FY 2021. The property tax reduction will result in decreased local government property tax revenue and an increase in the General Fund appropriation for school aid. The following assumptions were used to estimate the property tax revenue decrease and appropriation increase:

- The DOR estimates that Division V will decrease the taxed valuation of competitive long distance telephone companies by $55.53 million in assessment year 2019 (FY 2021). The value is assumed to increase 2.3% each fiscal year.
- The FY 2019 statewide average property tax rate for utility property was $27.73 per $1,000 of taxed valuation. This rate is assumed to remain constant in future fiscal years. Of the $27.73, the school basic levy component equals $5.40.
- By action of the State school aid formula, property tax exemptions increase the General Fund appropriation to schools by $5.40 per $1,000 of exempted valuation. This causes the revenue reduction of a $27.73 property tax rate to reduce local government revenue by $22.33 as schools are reimbursed by the State General Fund for the remaining $5.40.

Division VI: Increases the income brackets and maximums for the existing Child and Dependent Care Tax Credit and Early Childhood Development Tax Credit by 27.5%. The Bill also indexes both credits' income brackets and maximums for annual inflation. As is the case under current law, taxpayers who qualify for both tax credits can only use one of the two credits to utilize each tax year. The changes are effective for tax years beginning on or after January 1, 2019. The following sources and assumptions were used to project the fiscal impact of the tax credit expansion:

- The DOR model of all Iowa income tax returns was used to estimate the tax year impact of the Child and Dependent Care Tax Credit increase. The Iowa credit is based on a percentage of a corresponding federal credit, and the federal credit has no income limitations. This allowed the DOR to model the impact of the tax credit change using actual federal tax return data.
- There is no corresponding federal tax credit for the Iowa Early Childhood Development Tax Credit. To model the impact of an increase in the income limits for that tax credit, taxpayers within the income range with dependents of qualifying age were randomly assigned qualifying expenses within the model.
- For TY 2023 and after, the contingent income tax system enacted in SF 2417 (2018 Tax Modifications Act) is assumed to be in effect.
- The DOR income tax model results for both tax credits combined projected annual income tax reductions of the following amounts:
  - TY 2019 = $2.149 million
  - TY 2020 = $2.379 million

  - TY 2021 = $2.615 million
  - TY 2022 = $2.857 million
  - TY 2023 = $3.218 million
  - TY 2024 = $3.859 million
- The LSA estimates that 5.0% of the TY 2019 tax reduction will impact the fiscal year in which the tax year begins (FY 2019), and 95.0% will impact the next fiscal year. For TY 2020 and after, 17.0% is assumed to impact the fiscal year in which the tax year begins, and 83.0% will impact the next fiscal year.
- Both tax credits are refundable, so there is no impact on the revenue raised by the local option income surtax for schools.

Division VII: Modifies, over a 10-year period, the income apportionment of a qualified air freight forwarder for corporate income tax purposes. The modification will incrementally lower a benefiting company's total income that is subject to Iowa income tax, and the result is expected to be a corporate income tax reduction. The change is effective beginning TY 2020 and will be fully implemented for TY 2029. A qualified air freight forwarder is defined as a corporate income taxpayer that:
- Is primarily engaged in the transportation of property by air.
- Does not operate an airline itself.
- Is in the same affiliated group as an airline.

The impact by tax year was developed by the DOR using the following assumptions:
- The TY 2020 total income of benefiting companies will equal $3.2 billion. The total income is expected to increase by 5.77% each tax year.
- Under current law, 0.48% of the income of the benefiting companies is assumed to be apportioned to Iowa each tax year. Under the proposed law, the Iowa apportionment is expected to be 0.45% for TY 2020, falling incrementally to 0.18% for TY 2029.
- Under both current and the proposed law, the marginal corporate tax rate for the impacted companies is assumed to be 11.8% for TY 2020. Due to implementation of lower corporate tax rates starting TY 2021, the marginal corporate tax rate for the companies is assumed to be 9.76% for TY 2021 and after.
- Based on the above assumptions, the corporate income tax reduction, by tax year, is projected to be:
  - TY 2020 = $0.1 million
  - TY 2021 = $0.2 million
  - TY 2022 = $0.3 million
  - TY 2023 = $0.4 million
  - TY 2024 = $0.6 million
  - TY 2025 = $0.7 million
  - TY 2026 = $0.9 million
  - TY 2027 = $1.1 million
  - TY 2028 = $1.3 million
  - TY 2029 and after = $1.6 million
- The benefiting companies are required to remit their corporate income tax through quarterly estimate payments. The LSA estimates that 50.0% of each tax year's tax reduction will impact the fiscal year in which the tax year begins, and 50.0% will impact the next fiscal year.

Division VIII: Exempts interest and earnings from a burial trust fund from individual income tax. The change is effective beginning TY 2020. Assumptions and data sources used to develop the fiscal impact estimate include:

- Department of Revenue analysis of a 2014 Iowa Insurance Division annual report concludes that the total asset level held in burial trust funds for Iowans totaled $179.9 million at the end of 2014. Reports for years beyond 2014 do not include the information needed for the analysis.
- The LSA assumes that the interest and other earnings earned on burial trust fund balances for CY 2015 through 2018 are equal to the growth in the average daily value for the Vanguard S&P 500 Index Mutual Fund (ticker symbol VFINX) and the Vanguard Long-Term Investment Grade Fund Investor Share Mutual Fund (ticker symbol VWESX), with the return for VFINX weighted 25.0% and VWESX weighted 75.0%. For the projection years CY 2019 through 2025, the average annual rate of growth for those two mutual funds for the past 18 years (2000 to 2018) is used with the same weightings. The interest and earnings assumptions yield the following average rate of return:
  - CY 2015 = 6.8%
  - CY 2016 = 6.9%
  - CY 2017 = 8.0%
  - CY 2018 = 3.4%
  - CY 2019 and after = 6.8%
- The asset level is assumed to increase each year by the amount of estimated interest and earnings. New contributions and withdrawals are not considered in the interest and earnings calculation.
- The asset level includes Qualified Funeral Trust (QFT) balances, and the DOR indicates that those arrangements pay income taxes at the trustee level and are not impacted by this Bill. To remove QFT balances from the calculation, the interest and earnings calculation is reduced by 35.0%.
- A significant portion of people establishing burial trust funds do not have Iowa income tax liability. To remove taxpayers with no Iowa income tax liability from the calculation, the interest and earnings calculation is reduced by an additional 50.0%.
- The provision is effective July 1, 2019. It is assumed that this effective date will make the tax exemption available for TY 2019 tax returns.
- The average marginal tax rate for impacted taxpayers with Iowa income tax liability is assumed to be 5.5% for TY 2019 through TY 2022 and 5.0% for TY 2023 and after.
- The tax reduction for a tax year is assumed to impact the fiscal year that begins during that tax year (e.g., TY 2019 impacts FY 2020).

Division X: Extends the Targeted Jobs Withholding Credit Pilot Project, set to expire June 30, 2019, to June 30, 2023. The program offers a withholding tax credit to businesses that are located in or expand into one of the pilot project cities:

- Sioux City
- Council Bluffs
- Burlington
- Keokuk
- Fort Madison

Qualified businesses sign an agreement with the city and the Iowa Economic Development Authority. The tax credit equals 3.0% of gross wages paid to each employee covered by the agreement. The following assumptions were made to estimate the fiscal impact of this change:

- An average year's agreements under the existing program has equaled $5.0 million in withholding credits. That level of awards is assumed for each of the four extended years.
- One-half of the annual award amount will be 5-year awards, and one-half will be 10-year awards. For 5-year awards, the annual tax credit will equal 16.0% of the award amount each year for five years, and 20.0% of the award will expire unused. For 10-year awards, the annual tax credit will equal 8.0% of the award amount each year for 10 years, and 20.0% of the award will expire unused.
- The impact of the extended tax credit will begin in FY 2020 and extend to FY 2032.

Division XI: Increases the annual aggregate award cap for the School Tuition Organization (STO) Tax Credit from the current $13.0 million to $17.0 million, effective beginning CY 2020. The following facts, assumptions, and sources were used in developing the fiscal impact estimate for this provision:

- The tax credit is equal to 65.0% of a qualified contribution to an STO. Therefore, an increase in the STO cap of $4.0 million translates to $6.15 million in increased STO contributions.
- Contributions to STOs that earn the taxpayer a 65.0% tax credit are not allowed to also be used as an itemized deduction for Iowa tax purposes. Some taxpayers making qualified contributions to STOs may make that contribution instead of a contribution to another charity or organization that would earn the taxpayer an itemized deduction. It is assumed that 50.0% of the additional $6.15 million displaces contributions that would earn the taxpayer a usable itemized deduction. The average marginal State income tax rate for taxpayers utilizing itemized deductions is assumed to be 6.9% through TY 2022 and 6.5% for TY 2023 and after. This calculation will offset the annual tax credit cost by $0.2 million.
- School Tuition Organization Tax Credits are not refundable or transferable, but unused credits may be carried forward for up to five additional tax years. Based on historical STO Tax Credit claims, 94.0% of awarded credits are redeemed and 6.0% expire unredeemed. The assumed redemption pattern is:
  - Year 1 = 60.0% of the amount awarded
  - Year 2 = 20.0%
  - Year 3 = 8.0%
  - Years 4 through 6 = 2.0% per year
- The STO credit is not refundable, so it impacts the calculation of the local option income surtax for schools. The impact on the surtax is assumed to be an amount equal to 2.9% of the General Fund impact.
- The LSA estimates that 10.0% of each tax year's tax reduction will impact the fiscal year in which the tax year begins, and 90.0% will impact the next fiscal year.

Division XII: Requires that the value of residual fertilizer (excess available nutrients that are incorporated into and inseparable from the land) must be included in a written agreement between a seller and a buyer in order for the value to be eligible for an income tax deduction on the buyer's Iowa income tax return. Under current law, the seller may include the value of residual fertilizer as part of the sales price of real property of a farm business. Farm business sales meeting certain requirements are eligible for an exemption from Iowa capital gains tax. This makes the value of residual fertilizer exempt from Iowa income tax in these types of situations. Buyers of the property depreciate or amortize the value of the residual fertilizer over time. The change is effective for sales executed on or after July 1, 2019. Assumptions used to estimate the fiscal impact of the provision include:

- Buyers will continue to depreciate or amortize the value of residual fertilizer as under current law, so buyers will not be impacted.

- Under the Bill, the value of residual fertilizer will become ordinary income to the seller (as opposed to a capital gain) and therefore subject to Iowa income tax.
- The total value of residual fertilizer for TY 2017 is estimated to be $6.0 million. That amount is estimated by the LSA to increase 2.3% each tax year.
- The assumed average marginal State income tax rate for impacted taxpayers is 6.48%.
- The LSA estimates that the entire impact will be realized through the tax return process (as opposed to tax withholding and estimate payments).
- The statewide average local option income surtax rate is 2.9% of State tax liability.

Division XIII: Eliminates the Iowa bank franchise alternative minimum tax. The change is effective January 1, 2021 (TY 2021). A related credit for alternative minimum taxes paid is eliminated for TY 2022 and after. Assumptions used to estimate the fiscal impact of the provision include:

- Financial institution tax return information is based on TY 2016 and TY 2017 (the two most recent available tax years). For both years, approximately 2.0% of financial institutions paid the bank franchise alternative minimum tax. Based on the average of the two years, the DOR estimates that eliminating the bank franchise alternative minimum tax will reduce TY 2021 tax liability by 4.6% and by 2.1% for TY 2022 and each year thereafter.
- The tax liability reduction estimates are applied to the March 2019 Revenue Estimating Conference estimates for bank franchise tax revenue ($41.3 million for FY 2019 and $50.1 million for FY 2020, with revenue levels beyond FY 2020 assumed to increase 2.6% per year).
- Shareholders of financial institutions organized as S corporations of LLCs are allowed to claim an income tax credit for Iowa franchise taxes paid. Based on historical tax return data for financial institution shareholders, it is assumed that 50.0% of the decreased tax liability will result in decreased income tax credits for franchise taxes paid.
- Banks are required to remit bank franchise tax as quarterly estimate payments. The LSA estimates that 50.0% of each tax year's tax reduction will impact the fiscal year in which the tax year begins, and 50.0% will impact the next fiscal year.

Division XV: Expands the list of industries eligible to claim the Research Activities Credit (RAC) to include agriscience and agricultural animal production. The change is effective retroactive to January 1, 2017 (TY 2017). Under current law, and effective TY 2017, eligible industries must meet the following two requirements to be eligible for the Iowa RAC:

- Claim and be allowed the Federal Research Credit for the Iowa research claimed.
- Be engaged in one of the following industries:
  - Manufacturing
  - Life sciences
  - Software engineering
  - Aviation and aerospace

Assumptions used to estimate the fiscal impact of the provision include:

- Agriscience is interpreted by the DOR to be a life science industry and currently eligible for the RAC under existing law.
- The addition of agricultural animal production retroactive to TY 2017 will increase the number of businesses eligible for the RAC. The DOR estimates that RAC claims for TY 2015 and TY 2016 for animal production businesses made eligible retroactive to TY 2017 equaled $2.1 million. This amount is assumed to increase 3.7% each tax year.
- In addition to the agricultural animal production businesses assumed to become eligible as described in the previous bullet, animal farming operations will also become eligible for the

credit under the change in the Bill. The DOR estimates that 330 animal operations will claim the RAC, and the average credit claimed will equal $6,636.

- It is assumed that the animal production businesses will file amended returns to claim the RAC and those claims will reduce General Fund revenue in FY 2020. It is assumed that animal operations will not file amended returns to retroactively claim the Iowa RAC for TY 2017 and TY 2018.
- The tax credits are refundable, so earned credits are assumed to be 100.0% redeemed. For RAC claims in TY 2019 and after, credits are assumed to be redeemed on the following schedule:
  - Year 1 = 15.0%
  - Year 2 = 50.0%
  - Year 3 = 35.0%

Division XVI: Extends availability of the existing New Jobs Tax Credit to the bank franchise tax. The change is effective July 1, 2019. In order to qualify for a New Jobs Tax Credit, a business must have a job training agreement in place with a community college under Iowa Code chapter 260E. The per-job tax credit is equal to 6.0% of the wages of a qualified new job, up to the amount of covered wages for unemployment insurance for that year. The 2019 Iowa covered wage for unemployment insurance is $30,600, so the maximum tax credit per new job is 6.0% of $30,600, or $1,836. Assumptions used to estimate the fiscal impact of the provision include:

- The Iowa unemployment covered wage will increase 2.3% each calendar year.
- The annual number of bank jobs qualifying for the New Jobs Tax Credit will be 35.
- The LSA estimates that 50.0% of each tax year's tax reduction will impact the fiscal year in which the tax year begins, and 50.0% will impact the next fiscal year.

Division XIX: Expands the existing sales tax exemption for manufacturers by adding the word "primarily" to the definition of "manufacturer." This change will allow companies that are primarily manufacturers, but also engage in activities that are not manufacturing, to benefit from the sales tax exemption for manufacturers. The change is effective July 1, 2019.

Changes that narrowed the definition of "manufacturer" for the purpose of the sales/use tax exemption have been in place for less than one year, so insufficient information exists to measure the impact of the changes on differing manufacturing business situations. It is likely that the narrowing of the definition to exclude companies that engage in manufacturing and also engage in nonmanufacturing activities has impacted the sales tax exemption for some businesses. This assumed likelihood means that the impact of the Bill language is not zero. Assumptions used to estimate the fiscal impact of the provision include:

- The March Revenue Estimating Conference estimate for FY 2020 State General Fund sales tax net revenue (gross tax receipts minus tax refunds and the transfer to school infrastructure finance) is $2.497 billion. This amount is assumed to increase 2.3% per year.
- The Bill will result in an assumed annual reduction in sales tax net revenue of 0.007%.

Division XX: Narrows the taxable service definition of parking facilities. Current law lists "parking facilities" as a service subject to the sales tax. The Bill changes the reference to "privately-owned, for-profit parking facilities." Public parking facilities are exempt under other provisions of law, so the change exempts the parking facilities of nonprofit entities from sales/use tax. The change is effective July 1, 2019. The following assumptions were used to project the fiscal impact of the taxable service change:

- The DOR estimates that nonprofit parking facility services subject to tax will equal $1.4 million in FY 2020 and will grow annually by 2.3%.

- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax is 0.9%.

Division XXI: Creates a new sales tax exemption for goods, digital products, and services paid for or reimbursed by Medicaid. The change is effective July 1, 2019. The following assumptions were used to project the fiscal impact of the new sales tax exemption:

- Data for fiscal years 2016 through 2018 obtained from Medicaid insurers indicate that total dollars spent on items paid through Medicaid and covered by this Bill averaged $9.1 million. The cost due to inflation is assumed to increase this amount to $10.2 million for FY 2020. The annual cost is assumed to increase 3.1% per year after FY 2020.
- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division XXII: Changes income apportionment methods (apportioning corporate income among the various states) for broadcasters effective beginning TY 2013. Under current law, the apportionment change is effective beginning TY 2015 (see SF 479 (Broadcaster Income Apportionment Act of 2015)). The following assumptions were used to estimate the fiscal impact of this income apportionment change:

- The DOR projects current audits of broadcasters for TY 2013 and 2014 to result in the deposit of $2.6 million in corporate income tax, interest, and penalties to the State General Fund in the next 18 months. For this estimate, the deposits are assumed to occur in FY 2020.
- Retroactively changing the apportionment method for broadcasters for TY 2013 and 2014 is assumed to reduce the corporate income tax, interest, and penalties total for these audits by $1.6 million.

Provisions with Minor or No Estimated Fiscal Impact

Division I, Sections 1 Through 3: Clarifies Iowa tax provisions related to the Qualified Business Income (QBI) deduction for TY 2019. The changes will allow for easier administration of the QBI income tax provisions.

Division I, Section 4: Specifies that the membership of a board of directors of an STO may exceed seven in number.

Division I, Sections 5 Through 8 and 13: Clarifies that the STO Tax Credit annual limit is a calendar year limit.

Division I, Section 10: Updates Internal Revenue Code reference language related to the bank franchise alternative minimum tax.

Division II: Allows simplified disclosure of tax information to a person authorized by the taxpayer to receive the taxpayer’s information.

Division III, Sections 19 and 23: Makes the entire purchase price of a software maintenance service or warranty contract subject to sales/use tax if the service portion of the contract price is not separately listed. Under current law, this situation would result in one-half of the contract price being subject to sales tax. The change also makes the purchase exempt from sales tax if the purchaser is a commercial enterprise. Together, the changes mean that only purchases made by entities that do not qualify as a commercial enterprise will be subject to tax. The DOR indicates that the overall impact of the changes will be slightly positive.

Division III, Sections 27 and 28: Allows certain sales/use tax reports required of a referrer (online sales) to be filed on an annual, rather than monthly, basis, and requires the DOR to implement certain sales/use tax referrer requirements by administrative rule.

Division III, Section 29: Strikes a provision that automatically registers with Iowa any retailer that registers in any state that is part of the Streamlined Sales Tax Agreement.

Division III, Section 30: Establishes a Taxation and Exemption of Computers Task Force to review the definition of "computer" as it relates to the existing sales tax exemption for computers. The DOR is directed to provide any recommendations of the Task Force to the General Assembly by January 1, 2020. The only fiscal impact of the provision would be the administrative costs to the DOR.

Division IV: Clarifies the application and collection of the automobile rental excise tax.

Division IX: Allows a qualified taxpayer to claim the entirety of the Adoption Tax Credit in the tax year when the adoption is finalized. Under current law, the eligible taxpayer must file an amended return for expenses incurred during tax years prior to the finalization of the adoption. The change applies retroactively to TY 2019. While the change may have a small General Fund revenue impact between fiscal years, it is not expected to decrease tax revenue across multiple fiscal years.

Division XIV: Corrects Iowa Research Activities Tax Credit references to reflect changes to the Internal Revenue Code.

Division XVII: Extends the current sunset date for the Utility Replacement Tax Task Force for 10 years, to January 1, 2029. The Task Force studies the effect of electric, natural gas, and water utility replacement taxes (a local tax that replaces property tax) on local taxing authorities.

Division XVIII: Administrative change to the imposition of the moneys and credits tax (the income tax paid by credit unions). No changes are made to the tax itself.

Fiscal Impact

The projected fiscal impact of the various provisions of the Bill is summarized in the following table.

Projected State General Fund Revenue Change by Provision

In Millions

Division/Section	Provision	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Div. I, Sec. 9	ECD Nonresident	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Div. I, Sec. 11	Like-Kind Exchanges	-0.2	-0.7	0.0	0.0	0.0	0.0
Div. III, Sec. 20	Carpentry	0.0	0.8	0.9	0.9	0.9	0.9
Div. III, Sec. 21 & 31	Grain Bins	-1.4	-5.2	-5.3	-5.5	-5.6	-5.8
Div. III, Sec. 22	M & E Exemption	0.6	1.5	1.5	0.6	0.6	0.7
Div. III, Sec. 24-26	Seller 200 Nexus	0.0	-0.9	-1.0	-1.1	-1.3	-1.4
Div. VI	CDC and ECD Brackets	-0.1	-2.4	-2.4	-2.7	-2.9	-3.3
Div. VII	Air Freight	0.0	-0.1	-0.2	-0.3	-0.4	-0.5
Div. VIII	Burial Trusts	0.0	-0.3	-0.3	-0.3	-0.3	-0.4
Div. X	Targeted Jobs	0.0	-0.6	-1.2	-1.8	-2.4	-2.4
Div. XI	STO Tax Credit	0.0	-0.2	-2.3	-3.0	-3.3	-3.4
Div. XII	Residual Fertilizer	0.0	0.4	0.4	0.4	0.4	0.4
Div. XIII	Franchise Tax AMT	0.0	0.0	-0.6	-0.9	-0.6	-0.6
Div. XV	RAC	-0.7	-3.6	-6.9	-6.4	-5.0	-5.2
Div. XVI	New Jobs Credit	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Div. XIX	Manufacturer Def.	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Div. XX	Parking Sales Tax	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Div. XXI	Medicaid Sales Tax	0.0	-0.5	-0.5	-0.5	-0.6	-0.6
Div. XXII	Broadcaster Income	0.0	-1.6	0.0	0.0	0.0	0.0
	Total	$ -1.8	$-13.7	$ -18.3	$ -21.0	$ -20.9	$ -22.0

Projected State General Fund Appropriation Change by Provision

In Millions

Division/Section	Provision	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Div. V	School Aid Approp.	$ 0.0	$ 0.0	$ 0.3	$ 0.3	$ 0.3	$ 0.3

Projected Local Revenue Change by Revenue Type

In Millions

Local Revenue Type	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
School Infrastructure	$ -0.2	$ -1.0	$ -1.1	$ -1.1	$ -1.2	$ -1.3
Local Option Sales Tax	-0.2	-1.0	-0.9	-1.0	-1.0	-1.0
School Income Surtax	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Property Tax	0.0	0.0	-1.2	-1.3	-1.3	-1.3
Total	$ -0.4	$ -2.0	$ -3.3	$ -3.5	$ -3.6	$ -3.7

ECD = Early Childhood Development Tax Credit
CDC = Child and Dependent Care Tax Credit
M & E = Machinery and Equipment
STO = School Tuition Organization
AMT = Alternative Minimum Tax
RAC = Research Activities Credit

Sources

Department of Revenue
Joint Committee on Taxation (U.S. Congress)
National Agricultural Statistics Service
Iowa Department of Commerce
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.