Fiscal Note

Fiscal Services Division

SF 630 – Shortline Railroad Restoration Tax Credit (LSB1937SV)
Analyst: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

Senate File 630 creates a new Shortline Railroad Restoration Tax Credit. The credit is available to Class II and Class III railroads (as classified by the Federal Surface Transportation Board) that incur qualified costs for maintenance, reconstruction, or replacement of railroad infrastructure, including bridges.

The credit is equal to 50.0% of qualifying expenditures. The total annual credits for a railroad may not be more than $2,000 for Class II railroads or $7,000 for Class III railroads, multiplied by the number of miles of railroad track owned or leased within the State. Expenditures funded by grants from a different agency, State or federal, are excluded from qualifying costs.

The credit is not refundable, but any unused credit may be carried forward for up to five additional tax years. The tax credit is transferrable.

The new tax credit may not be claimed by a taxpayer until such time as the General Assembly specifies the cumulative value of Shortline Railroad Restoration Tax Credits that may be claimed annually by all taxpayers.

Assumptions

- There are 12 Class III and two Class II railroads operating in Iowa. Total Class III mileage equals 1,360, and total Class II mileage equals 1,262. The mileage includes three railroads that are classified as either Class II or Class III but are owned by Class I railroads. The total miles for the three railroads is 1,666 miles. It is assumed that being owned by a Class I railroad will not preclude Class II and Class III railroads from utilizing the credit.
- Department of Revenue rules will specify that qualifying expenditures must be related to track miles located in Iowa.
- The average annual per-mile track maintenance cost is assumed to equal at least $14,000 per mile per year.
- Based on the above three assumptions, the annual tax credit amount earned by the 14 eligible railroads is $12.0 million.
- The tax credit redemption pattern is assumed to be similar to other transferable tax credits. The assumed redemption pattern is:
  - Year 1 = 40.0%
  - Year 2 = 40.0%
  - Year 3 = 15.0%
  - Expiring unredeemed = 5.0%
- The new tax credit does not designate when the tax credit may first be earned. With an effective date of July 1, 2019, it is assumed that the first year a tax credit may be earned is 2019.
- The Bill specifies that tax credits may not be claimed until the General Assembly has specified the cumulative value of tax credits that may be claimed annually by all taxpayers. That cumulative value is not specified in this Bill.

Fiscal Impact

The new Shortline Railroad Restoration Tax Credit does not have a fiscal impact because the contingent applicability provision of the Bill forbids tax credit claims under the program until such time as the General Assembly sets the program's annual amount. However, tax credits may still be earned in anticipation of future action by the General Assembly. Based on the assumptions above, it is estimated that earned tax credits will total the following amounts:

- FY 2020 = $4.8 million
- FY 2021 = $9.6 million
- FY 2022 and after = $11.4 million

The General Assembly will decide in different legislation if and how earned tax credits will become claimed tax credits. The fiscal impact will occur once earned tax credits are allowed to be claimed by the taxpayer.

The Department of Revenue estimates that the new tax credit will require $30,000 in annual administrative expenditures. In addition, one-time costs associated with adding the new credit to the Department's tax credit tracking system will total $240,000.

Sources

Department of Transportation Iowa State Rail Plan
Department of Transportation Iowa Rail Trends
U.S. Department of Transportation
Department of Revenue

/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.