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[HF 339](#) – Investor and Innovation Fund Investment Tax Credit Allocations (LSB1250HV.1)  
Analyst: Jeff Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)  
Fiscal Note Version – As passed by the House

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**Description**

[House File 339](#) as passed by the House increases the current \$2.0 million aggregate maximum annual tax credit allocation for the [Qualifying Business Tax Credit](#) to at least \$2.0 million and not more than \$4.0 million. In addition, the Bill reduces the current \$8.0 million aggregate maximum annual tax credit allocation for the [Innovation Fund Investment Tax Credit](#) to at least \$6.0 million and no more than \$8.0 million. Under both current law and the proposed law, the Iowa Economic Development Authority (IEDA) is allowed to allocate less than the specified minimum under both programs if the IEDA determines that insufficient demand exists. The changes take effect upon enactment.

The Bill also creates a new and separate tax incentive program within the High Quality Jobs Program (HQJP). The separate program provides enhanced incentives and is available for qualified economic development projects located in any Iowa city with a population of 30,000 or less in a county with a population of 50,000 or less.

**Assumptions**

Investor and Innovation Fund Investment Tax Credit Allocations

- The Qualifying Business Tax Credit has been operating at or near its \$2.0 million annual allocation cap.
- The Innovation Fund Investment Tax Credit has been operating well under its annual \$8.0 million allocation cap.
- There is sufficient demand for the Qualifying Business Tax Credit to fully utilize the additional \$2.0 million annual allocation, so transferring allocation cap amounts to the Qualifying Business Tax Credit from the Innovation Fund Investment Tax Credit will result in the redemption of up to \$2.0 million in additional tax credits each year, beginning FY 2020.
- Once awarded, tax credits are assumed to be redeemed on the following schedule:
  - Year 1 (year of award) = 70.0%
  - Year 2 = 25.0%
  - Year 3 = 2.0%
  - Never redeemed = 3.0%

High Quality Jobs Program Changes

- The average annual amount of tax credits awarded under the HQJP for FY 2016 through FY 2018 was \$55.4 million, well below the annual tax credit [cap](#) allowed for the program. It is assumed that in upcoming years, the HQJP tax credit cap will not be fully utilized under current law. This assumption means that placing this new tax credit program under the same overall cap as the HQJP does not decrease tax credits awarded to the existing HQJP or any other tax incentive program.
- It is assumed that \$64.0 million in tax incentives will be awarded each fiscal year through the HQJP under current law.
- A Department of Revenue (DOR) review of HQJP awards from FY 2016 through FY 2018 determined that 48.0% of awards in those years went to projects in locations that would

qualify for additional incentives under this Bill. The annual awards to projects in less populated areas therefore equals \$30.7 million (48.0% of \$64.0 million).

- The DOR estimates that the additional incentives created in the Bill for less populated areas will increase the average award to projects in those areas by 13.0%. This adds \$4.0 million to the tax incentive awards each year (13.0% of \$30.7 million).
- Based on historical HQJP awards, future awards are assumed to be split 55.0% as investment tax credits, 35.0% as sales/use tax refunds, and 10.0% as Supplemental Research Activities Credits.
- The new incentives for projects available in less populated areas are first effective for FY 2020. Project completion is needed before any tax incentives may be redeemed. Therefore, the first fiscal impacts are assumed to occur in FY 2021.
- Investment tax credits are assumed to be redeemed over the eight years after project approval, sales/use tax refunds over six years, and Supplemental Research Activities Tax Credits over three years.

### **Fiscal Impact**

Increasing the maximum annual allocation to the Qualifying Business Tax Credit by \$2.0 million and decreasing the annual allocation to the Innovation Fund Investment Tax Credit by the same amount is projected to reduce net General Fund revenue by \$1.4 million in FY 2020 and \$1.9 million in future fiscal years.

In addition, creating a new tax incentive program within the HQJP for projects in less populated areas is projected to decrease net General Fund revenue by the following amounts:

- FY 2021 = \$0.1 million
- FY 2022 = \$0.9 million
- FY 2023 = \$1.7 million
- FY 2024 = \$2.3 million
- FY 2025 = \$2.8 million
- FY 2026 = \$3.3 million
- FY 2027 = \$3.7 million
- FY 2028 and after = \$4.0 million

### **Sources**

Iowa Economic Development Authority  
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.

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