



Fiscal Note

Fiscal Services Division

HF 2023 – Broadband Grant Award Tax Exemption (LSB5246YH)
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Fiscal Note Version – New

Description

[House File 2023](#) exempts federal, state, and local grants awarded to communication service providers from Iowa individual and corporate income taxes. The change is effective retroactively to January 1, 2019. A refund of taxes paid on calendar year 2019 grants is allowed provided that the refund claim is filed before October 1, 2020.

Background

The taxation status of government grants is established in federal Internal Revenue Code (IRC) section [118\(b\)\(2\)](#). Iowa's tax law couples with this IRC section, therefore a broadband grant that is taxable for federal tax purposes is also taxable for Iowa income tax purposes.

Assumptions

- Federal financing programs for broadband infrastructure totaled \$620.0 million nationally in calendar year (CY) 2019 and that amount is assumed for future years. The Iowa share of the national annual total is assumed to equal 1.1% (\$6.8 million).
- State broadband infrastructure grants are assumed to have equaled \$1.3 million for CY 2019, \$5.0 million for CY 2020, and are assumed to equal \$15.0 million in CY 2021 and future years.
- Grants from local government sources are assumed to be minimal.
- Some grant situations will not result in Iowa income tax liability. An amount equal to 75.0% of the assumed grant total is assumed to be subject to Iowa individual or corporate income tax under current law.
- The combination of the four preceding assumptions results in \$6.1 million in taxable grants during CY 2019, \$8.9 million in CY 2020, and \$16.4 million in CY 2020 and succeeding years. Of these amounts, 20.0% is assumed to be taxed as individual income and 80.0% as corporate income.
- The marginal individual income tax rate for tax year (TY) 2019 through TY 2022 is 8.53%, and 6.5% for TY 2023 and after.
- The average marginal corporate income tax rate is assumed to equal 11.5% for TY 2019 and TY 2020, and 9.0% for TY 2021 and after.
- The individual income tax reduction for TY 2019 grants is assumed to occur in FY 2020, with the same pattern for succeeding years.
- Fifty percent of the corporate income tax reduction for TY 2020 grants is assumed to occur in FY 2020 and 50.0% in FY 2021, with the same pattern for succeeding years.
- The tax refunds for CY 2019 grants are assumed to be all corporate income tax refunds and issued during FY 2021.

Fiscal Impact

Exempting federal, state, and local grants awarded to communication service providers from Iowa individual and corporate income taxes is projected to reduce net individual and corporate income tax by the amounts in the following table.

Estimated Net General Fund Revenue Reduction
In Millions

	Individual Income	Corporate Income	General Fund
FY 2020	\$ 0.1	\$ 0.2	\$ 0.3
FY 2021	0.2	1.5	1.7
FY 2022	0.3	1.2	1.5
FY 2023	0.3	1.2	1.5
FY 2024	0.2	1.2	1.4
FY 2025	0.2	1.2	1.4

The annual revenue reductions are projected to continue at similar levels in future fiscal years.

Sources

Department of Revenue
 National Telecommunications and Information Administration [Broadband Funding Guide](#)
 Office of the Chief Information Officer [Broadband Grants](#)
 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.
