



[HF 2601](#) – Property Tax Credits Application Date (LSB6096HV)
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Fiscal Note Version – New

Description

[House File 2601](#) provides an additional seven days for a home purchaser to apply for a current-year Homestead Tax Credit (Iowa Code section [425.2](#)) in situations where the purchase is on any of the dates from June 25 through June 30. If a purchaser of a homestead that closes on any of those dates applies within seven days of the closing, the homestead application will be effective for the current assessment year. If the purchase closes on any of those dates and the purchaser does not apply within seven days of the closing, the homestead credit will first apply for the next assessment year. A similar change is made for the Business Property Tax Credit (Iowa Code section [426C.3](#)) and the Military Tax Exemption (Iowa Code section [426A.13](#)) application process.

The changes are effective for assessment year 2020 and after (taxes due in FY 2022 and after).

Assumptions

- Based on sales data published by the Iowa Realtors Association, 4,500 single-family, townhouse, and condominium sales closed during the month of June 2019. This number is assumed to represent June sales for all future years.
- It is assumed that 40.0% of home closings for a month occur during the final six days of the month.
- Not all home sales qualify as a homestead, and not all purchasers who close on homes during the additional application window will apply during the seven days provided. It is assumed that 70.0% of the sales on June 25 through June 30 are eligible for the Homestead Tax Credit and purchasers will also take advantage of the additional application window provided in the Bill.
- Based on the previous three assumptions, the projected number of properties benefiting from the additional application period provided in the Bill each year is 1,260.
- The statewide average residential property tax rate for FY 2020 is \$34.45 per \$1,000 of taxed valuation, and the credit applies to \$4,850 of taxed valuation. Therefore, the average tax credit equals \$167 and the projected aggregate property tax reduction for all additional claimants is \$210,000 each year.
- Homestead Tax Credit claims are paid through the State's Homestead Credit Fund, which is financed through an annual State General Fund standing unlimited appropriation.
- The number of Military Tax Exemption claimants for FY 2020 is 137,730 and the number of Homestead Tax Credit claimants is 753,338. This means that 18.3% of homestead credit claims also include a claim for the Military Tax Exemption. With the assumed 1,260 homestead claims impacted by the Bill, 231 Military Tax Exemption claims will also benefit each year. For most claimants, that [exemption](#) is equal to the tax on \$1,852 of taxed value. For the Military Tax Exemption, the Military Tax Credit (Iowa Code section [426A.2](#)) reimburses the local government property tax system \$6.92 per \$1,000 of exempted value and the school aid formula also reimburses the property tax system \$5.40 per \$1,000 of exempted value. With an assumed \$34.45 average residential property tax rate, \$22.13 per

\$1,000 of exempted tax value remains as a property tax revenue reduction for local governments. Therefore, the average tax exemption equals \$64, and the projected aggregate property tax reduction for all additional claimants is \$15,000 each year. The projected government finance implications of the exemption are as follows:

- A \$3,000 increase in the Military Tax Credit State General Fund standing unlimited appropriation.
- A \$2,400 increase in the State General Fund appropriation for school aid.
- A \$9,600 decrease in local property tax revenue.
- The Business Property Tax Credit is funded through an annual State General Fund standing limited appropriation of \$125.0 million that is divided among all eligible properties based on property values and tax rates. The Bill will make additional properties eligible for the credit one year earlier than would be the case under current law. The fiscal impact of this will be a reduction in the credit value for some of the other properties that are receiving the credit that year. There is no impact on the State General Fund or local government finance.

Fiscal Impact

The Bill allows certain purchasers of property to benefit from three property tax credits one year earlier than would be the case under current law. The extended application window for the Homestead Tax Credit, the Business Property Tax Credit, and the Military Tax Exemption provided in the Bill is projected to increase the annual General Fund standing unlimited appropriation to the Homestead Credit Fund by \$0.2 million beginning with FY 2022. The Bill will also increase the State General Fund standing unlimited appropriation for the Military Service Credit by a minor amount and reduce local property tax revenue by a minor amount.

Sources

Iowa Realtors Association Monthly Indicators ([December 2019](#))
Legislative Services Agency analysis
Department of Management property tax files

/s/ Holly M. Lyons

March 5, 2020

Doc ID 11327222722

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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