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Fiscal Note

Fiscal Services Division

SF 27 – Research Activities Tax Credit, Refund Limitation (LSB1265XS)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

Senate File 27 limits Research Activities Tax Credit (RATC) refundability to no more than $1.0 million per taxpayer per tax year. The change is effective retroactive to tax years beginning on or after January 1, 2021.

Background

Refundability refers to the ability of a taxpayer to benefit from an earned tax credit that is larger than the amount of tax liability the taxpayer has for a particular tax year. If the tax credit is refundable and if the tax credit exceeds tax liability, the difference is remitted to the taxpayer in the form of a payment from the State. If a tax credit is not refundable, then any credit amount that is in excess of tax liability cannot be redeemed in that tax year.

For a recent discussion of the RATC and a list of refunds issued in 2019, please see the Department of Revenue Research Activities Tax Credit Annual Report for 2019. Reports for other years are available here.

Assumptions

- For calendar year 2010 through 2019, Department of Revenue RATC annual reports indicate that of the $596.0 million in total credits claimed over the 10 years, $312.1 million (52.4%) represents the portion of company claims that exceeded $1.0 million.
- The reports do not indicate what portion of a particular claim amount represents refunded dollars. For this estimate, it is assumed that 90.0% of the large claims represent RATC tax refunds.
- Given the first two assumptions, the average annual amount of RATC claims that represents tax refunds in excess of $1.0 million for a company in a year is estimated to total $28.1 million. The calculated amount of large refunds in excess of $1.0 million fluctuates from $22.6 million (CY 2018) to $33.2 million (CY 2019), with the remaining eight years falling in between those amounts. For this estimate, future annual totals are projected to average $28.1 million.
- The refund restriction is effective for tax years beginning on or after January 1, 2021. As RATC claims are paid after tax returns are filed, the first fiscal year that will be impacted by the reduction in refunds is assumed to be FY 2023 (begins July 1, 2022).

Fiscal Impact

Restricting the RATC refunds that a single consolidated company may receive for a tax year to $1.0 million is projected to increase net General Fund revenue by $28.1 million per year, beginning FY 2023.

Additional Potential Fiscal Impact

Existing Iowa law provides for a significant change to Iowa's individual income tax system once two General Fund revenue triggers are met. The first year that the triggers may be met is at the conclusion of FY 2022. Once implemented, this contingent income tax system is projected to reduce Iowa individual income tax by roughly $300.0 million per tax year. Since this Bill is projected to increase net General Fund revenue in FY 2023 and after, the Bill's changes will increase the probability of achieving both revenue triggers by the end of FY 2023 if those triggers were not already met at the end of FY 2022.

Sources

Department of Revenue Research Activities Tax Credit Annual Reports
LSA calculations

/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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