Fiscal Note

Fiscal Services Division

HF 362 – Workforce Child Care, Tax Credit (LSB1170HV)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

House File 362 creates a Workforce Child Care Facility Incentive Program to be administered by the Economic Development Authority (EDA). Beginning with FY 2022, the EDA is allowed to award up to $3.0 million each fiscal year in tax incentives under the Program. Incentives include a new Workforce Child Care Facility Tax Credit and refunds of sales/use tax paid to construct or rehabilitate a qualified child care facility. The Workforce Child Care Facility Tax Credit is not refundable but is transferable, and any unused amount may be carried forward to the next tax year.

A single project is allowed a maximum tax incentive of $200,000. The tax credit amount may be no more than 10.0% of the project cost if the project is located within a city or township located wholly within one of the 11 most populous counties in Iowa, and no more than 20.0% of the project cost if located in the other 88 counties. The actual tax credit percentage each successful project receives will depend on a project application, review, and award system established by the EDA. A local financial contribution requirement in the form of cash, cash equivalent, and/or property tax incentives for the developer is required under the Program.

Background

According to 2019 population estimates, the 11 most populous counties in Iowa are:

- Black Hawk
- Dallas
- Dubuque
- Johnson
- Linn
- Polk
- Pottawattamie
- Scott
- Story
- Warren
- Woodbury

Assumptions

- Sufficient demand for child care facility development exists to fully utilize the annual $3.0 million maximum award amount available.
- Seventy-five percent of tax incentives awarded under the Program each year will be income tax credits, and 25.0% will be sales/use tax refunds.
- Projects approved in a fiscal year will be completed 20.0% in the fiscal year of the approval, 60.0% in the second fiscal year, and 20.0% in the third fiscal year.
- Tax credits must be earned through completion of the project. The income tax credits are not refundable but are transferable, and unused credits may be carried forward to the next

tax year. Once earned, income tax credits are assumed to be redeemed according to the following schedule:
  - Fiscal year earned = 15.0%
  - Second and third fiscal year = 35.0% each year
  - Fourth fiscal year = 11.0%
  - Never earned or never redeemed = 4.0%
- Awarded sales/use tax refunds must first be earned through completion of the approved project. Once earned, sales/use tax refunds are assumed to be paid by the State according to the following schedule:
  - Fiscal year earned = 17.0%
  - Second fiscal year = 51.0%
  - Third fiscal year = 17.0%
  - Never earned or never redeemed = 15.0%
- The above assumptions produce a projected FY 2022 General Fund revenue reduction of $88,000. As a new program, some initial delay should be expected; therefore, it is assumed the $88,000 will not occur until FY 2023, and that amount is added to the projected FY 2023 revenue reduction.

Fiscal Impact

The new tax incentive program for child care facility development is projected to reduce net General Fund revenue by the amounts in the following table.

Projected Net General Fund Revenue Change
In Millions

	Amount
FY 2022	$ 0.0
FY 2023	-0.6
FY 2024	-1.4
FY 2025	-2.3
FY 2026	-2.7
FY 2027 and after	-2.7

The Department of Revenue indicates that it may incur additional expenditures for administrative rulemaking, computer programming, and tax form updates.

Sources

Department of Revenue
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.