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[SF 364](#) – Paycheck Protection Program, Fiscal Filers (LSB2503SV.2)  
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Fiscal Note Version – As amended by [H-1115](#) (Ways and Means Committee amendment)

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**Description**

[Senate File 364](#) as amended by [H-1115](#):

- Expands an existing tax preference available for the income and deductions associated with a forgiven federal Paycheck Protection Program (PPP) loan to include taxpayers who received a PPP loan within the taxpayer’s 2019 tax year (TY).
- Exempts the proceeds of grants received by a taxpayer from COVID-19 assistance programs administered by the Economic Development Authority (EDA), Iowa Finance Authority (IFA), and the Department of Agriculture and Land Stewardship (DALs) from the State corporate and individual income tax. This provision is repealed January 1, 2024.
- Excludes unemployment insurance payments received from a program commonly known as Federal Pandemic Unemployment Compensation (FPUC) from Iowa taxable income when computing income tax liability. The change is retroactive to January 1, 2020, and applies to income received in TY 2020, and is repealed January 1, 2026.

**Background**

**Paycheck Protection Program** — Existing Iowa law provides an income tax exemption and associated expense deduction for forgiven federal PPP loans for tax years beginning on or after January 1, 2020 (TY 2020). This change extends the same benefit to taxpayers whose tax year is not the calendar year and who received PPP income in TY 2019.

**COVID-19 Grants** — The exemption is expected to apply to 14 grant programs administered by the EDA and/or IFA and 5 grant programs administered by the DALs.

**Federal Pandemic Unemployment Compensation** — Federal legislation enacted in 2020 created several special unemployment compensation programs to assist unemployed workers. The first payments were distributed in early March 2020. The proposed income tax exemption applies to income received through FPUC only. The FPUC payments equaled \$600 each week and the payments were in addition to the taxpayer’s unemployment compensation received under the regular unemployment insurance program.

**Assumptions**

**Paycheck Protection Program** — The Department of Revenue estimates that Iowa businesses that do not have a tax year that coincides with a calendar year have a total of \$107.8 million in net PPP income that could be subject to Iowa income tax under existing law. The net PPP income amounts, average marginal tax rates, and income tax reductions assumptions are shown in **Table 1**. It is assumed that the timing of tax return or amended tax return filing will result in 90.0% of the tax reduction occurring in FY 2021 and 10.0% occurring in FY 2022.

**Table 1**  
**Paycheck Protection Program Tax Exemption**  
**Projected General Fund Revenue Reduction**

Dollars in Millions

<u>Taxpayer Type</u>	<u>PPP Net Income</u>	<u>Marginal Tax Rate</u>	<u>Tax Reduction</u>
Nonprofits	\$ 19.7	0.0%	\$ 0.0
C Corporations	\$ 43.2	6.3%	\$ 2.7
S Corps & Partnerships	\$ 38.2	5.6%	\$ 2.1
Individuals	\$ 6.7	5.3%	\$ 0.4
	<u>\$ 107.8</u>		<u>\$ 5.2</u>

**COVID-19 Grants** — The Department of Revenue estimates that \$307.8 million in COVID-19 assistance grants has been distributed. Assumptions include:

- A total of \$114.9 million was distributed to tax-exempt entities, and a total of \$192.9 million was distributed to entities subject to the individual or corporate income tax.
- The average marginal income tax rate will be 5.3%.
- The timing of tax return or amended tax return filing will result in 90.0% of the tax reduction occurring in FY 2021 and 10.0% occurring in FY 2022.

**Pandemic Unemployment Insurance** — The Department of Workforce Development distributed \$1,626.7 million in FPUC payments to unemployed Iowans in CY 2020.

- The average marginal income tax rate will be 5.3%.
- The timing of tax return or amended tax return filing will result in 90.0% of the tax reduction occurring in FY 2021 and 10.0% occurring in FY 2022.
- The reduction in State income tax liability will result in a reduction in the amount owed for any local option income surtax for schools. The statewide average surtax rate is 3.0% of State income tax liability.

**Fiscal Impact**

The corporate and individual income tax exemptions included in the Bill as amended by [H-1115](#) are projected to reduce income taxes paid and General Fund revenue by the amounts shown in **Table 2**. There is no projected fiscal impact beyond FY 2022.

**Table 2**  
**Projected Tax Reduction by Provision and Fiscal Year**

In Millions

	<u>Paycheck Protection Program</u>	<u>COVID-19 Grants</u>	<u>Pandemic Unemployment Insurance</u>	<u>Total</u>
FY 2021	\$ 4.7	\$ 9.2	\$ 77.6	\$ 91.5
FY 2022	0.5	1.0	8.6	10.1
	<u>\$ 5.2</u>	<u>\$ 10.2</u>	<u>\$ 86.2</u>	<u>\$ 101.6</u>

The statewide yield from the local option income surtax for schools will be reduced by a projected \$3.0 million across the two fiscal years.

The first filed tax returns for TY 2020 began to arrive in mid-February 2021. Exempting TY 2020 income from income tax will require changes to tax forms, instructions, and programs. It is likely that this change will result in a significant number of TY 2020 amended returns, which will increase the administration costs of the Department of Revenue.

In addition, exempting the FPUC payments lowans received as unemployment income will require a significant amount of administrative effort on the part of the Department of Revenue and the Department of Workforce Development. Approximately 200,000 taxpayers received unemployment payments during CY 2020, and most received payments through both the regular unemployment program and through FPUC. The W-2 forms the taxpayers received do not specify the portion of their unemployment income that came from the federal program exempted by this Bill. A system will need to be established to assist the taxpayers with identifying the amount of unemployment insurance that they individually received that is exempt under the provisions of this Bill.

**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 reduce General Fund revenue in FY 2022, the Bill’s changes will modestly reduce the probability of achieving both revenue triggers; as a consequence, the Bill could result in delayed implementation of the income tax reduction by one tax year.

**Source**

Department of Revenue  
Department of Workforce Development

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/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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