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**HF 626** – Property Tax Abatement for Home Improvements (LSB1168HV)  
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Fiscal Note Version – As passed by the House

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**Description**

[House File 626](#) creates an additional option for a city or a county to provide a property tax exemption to owner-occupied residential property located in an area designated as a federal targeted area. The Bill defines “federal targeted area” as an area that has been designated in the past as less desirable, declining, hazardous, or risky for mortgage lending by the [Home Owners’ Loan Corporation](#) or similar entity or as the result of implementation of the [National Housing Act of 1934](#), the [United States Housing Act of 1937](#), or successor provisions of federal law prior to the enactment of the [Fair Housing Act of 1968](#). The allowed exemption is based on a percentage of the actual value of the qualified property. The exemption runs for 15 years, beginning at 100.0% for the first year and ending at 16.0% for the 15th year. The change is effective for areas established on or after July 1, 2021.

**Background**

Iowa Code chapter [404](#) allows cities and counties to provide property tax exemptions based on the value added to the property by the property owner. The allowed exemptions vary in both exemption years and percent of exempt value. Current law allows cities and counties to establish, by ordinance, urban revitalization areas with associated property tax exemptions within five categories:

- Areas where the condition of a predominance of existing buildings is detrimental to public health, safety, and welfare.
- Areas where the presence of a substantial number of deteriorated buildings or other physical or ownership limitations or conditions creates a menace to public health, safety, or welfare.
- Areas where there is a predominance of structures which by reason of their age, history, architecture, or significance should be preserved or restored to productive use.
- Economic development areas as defined in Iowa Code section [403.17](#)(10).
- Areas designated as appropriate for housing and residential development including single or multifamily housing.

Current exemptions a city or county is allowed to offer under Iowa Code chapter 404 include:

- Iowa Code section [404.3](#)(1) — Residential property is allowed an exemption equal to 115.0% of the value of improvements for a period of 10 years. The exemption is limited to no more than \$25,000 and is further limited so as to not allow the assessed value, after application of the exemption, to fall below \$4,850.
- Iowa Code section [404.3](#)(2) — All qualified property is allowed an exemption equal to a percentage of the value added to the property. The exemption is for 10 years, beginning at 80.0% of the value added in year one and declining to 20.0% for the 10th year.
- Iowa Code section [404.3](#)(3) — All qualified property is allowed an exemption equal to 100.0% of the value added to the property for a period of three years.

- Iowa Code section [404.3\(4\)](#) — Residential property (and commercial or multiresidential property, with conditions) is allowed an exemption equal to 100.0% of the value added to the property for a period of 10 years.
- Iowa Code section [404.3A](#) — Residential property in an area designated as appropriate for housing and residential development is allowed an exemption equal to the first \$75,000 of the value of improvements for a period of five years.
- Iowa Code section [404.3B\(1\)](#) — All qualified property that is abandoned is allowed an exemption equal to a percentage of the value added to the property. The exemption is for 15 years, beginning at 80.0% of the value added for year one and declining to 20.0% for the 15th year.
- Iowa Code section [404.3B\(2\)](#) — All qualified property that is abandoned is allowed an exemption equal to 100.0% of the value added to the property for a period of five years.

Under current law, property value that may qualify for the exemption (qualified real estate) is limited to the value of real property that is not land, which is in an urban revitalization area, and was added during the time the urban revitalization area was in existence. Cities and counties are allowed in some instances to approve a property tax exemption benefit that offers a lower benefit in years or percentage of exemption than the maximum allowed under law.

Iowa law contains a number of programs, of which Urban Revitalization is an example, that allow for property tax exemptions. For assessment year (AY) 2019 (FY 2021), a total of \$6,441.5 million in assessed property value benefited from the various statutory exemptions. The percentage of total statewide value of each property classification for FY 2021 that is exempt from property tax through the various exemption programs equals:

- Residential = 1.0%
- Multiresidential = 9.9%
- Commercial = 5.3%
- Industrial = 16.2%

For residential and multiresidential, Urban Revitalization is the main program that provides the authority for the property tax exemption with 84.0% of residential exemptions and 99.2% of multiresidential exemptions granted through Urban Revitalization.

The property tax exemptions under Urban Revitalization are strictly a decision of the city or county that allows the exemption. Once the exemption is granted, the exemption reduces local government property tax revenue (cities, counties, schools, community colleges, etc.) when compared to a situation where an exemption is not granted. Exemptions also impact State General Fund expenditures through the school aid formula. All taxed property in the State pays \$5.40 per \$1,000 of taxed valuation as part of its consolidated property tax levy. Exempt property value does not pay this \$5.40 rate, and as a consequence of school finance, the State General Fund pays the \$5.40 rate on behalf of the exempt property.

### **Assumptions**

- The provisions of the Bill apply to owner-occupied residential property. The Bill does not apply to multiresidential or any other property class, or to residential property that is constructed, repaired, or enhanced and then sold.
- The tax exemption proposed in the Bill applies to all value of the qualified property, not just the value added. The exemption schedule runs for 15 years, starting at 100.0% of value and declining to 16.0% by the 15th year. In many situations, this exemption will be more advantageous to the owner than any of the existing Urban Revitalization schedules currently available to residential property owners. For this reason, it is assumed that the new

schedule will increase the use of Urban Revitalization and its associated property tax exemption.

- For AY 2019 (FY 2021), \$1,558.0 million in residential assessed value was exempt from property tax through Urban Revitalization. For this estimate, it is assumed that the proposed new exemption schedule will increase the amount of value that is exempt through Urban Revitalization by 0.3% for the first year available (AY 2022, FY 2024), with the exempt value increasing to 9.8% ofw the AY 2019 level by AY 2027/FY 2029. Once the program has been in place six years, new exemptions are assumed to equal expired exemptions or exemption reductions that are the result of the declining exemption percentage schedule.
- The residential rollback for FY 2022 will equal 56.4094% and for this projection that rollback is assumed to be constant in future years.
- It is assumed that almost all Urban Revitalization property is located within urban areas and it is further assumed that federal targeted areas as defined in the Bill will be concentrated in seven Iowa counties. The FY 2021 average urban residential property tax rate for Black Hawk, Dubuque, Linn, Polk, Pottawatomie, Scott, and Woodbury counties combined is \$38.78 per \$1,000 of taxed value. Of the statewide rate, \$5.40 per \$1,000 is the school finance basic levy and the remainder generates local government property tax revenue. This tax rate is assumed for all future years.

**Fiscal Impact**

The additional Urban Revitalization exemption schedule is projected to reduce property taxes owed, increase the State General Fund appropriation for school aid, and decrease local government property tax revenue by the amounts listed below.

<b>Projected Property Tax Reduction and Government Impact</b>			
In Millions			
	Property Tax Reduction	State Gen. Fund Appropriation Increase	Prop. Tax Revenue Decrease
FY 2024	\$ -0.1	\$ 0.0	\$ -0.1
FY 2025	-0.6	0.1	-0.5
FY 2026	-1.3	0.2	-1.1
FY 2027	-2.0	0.3	-1.7
FY 2028	-2.7	0.4	-2.3
FY 2029	-3.4	0.5	-2.9

Section 4 of the Bill specifies that to qualify for the tax exemption within an area designated by a city or county, the owner must add improvements to the property that equal or exceed 30.0% of the “actual value of the property as of the date the area was designated.” Since an area, once designated, may exist for decades, the specification tying the expenditures to the value of the property as of the designation date of the area may prove problematic as years pass between when an area is designated and when an owner chooses to take advantage of the property tax exemption by adding improvements to the property.

**Sources**

Department of Revenue property tax exemption files  
Legislative Services Agency analysis

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/s/ Holly M. Lyons

March 22, 2021

Doc ID 1217175

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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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