



[SF 297](#) – Water Utility Corporate Tax Exemption (LSB1291XS)
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Fiscal Note Version – New

Description

[Senate File 297](#) exempts certain income earned by a public utility from the State corporate income tax. The exemption includes income earned from the operation of piped systems that distribute water for public consumption and systems that dispose of sanitary sewage or storm water. The change applies to tax years beginning on or after January 1, 2023.

Background

There is currently one Iowa public utility, Iowa American Water Company, that provides water and/or wastewater disposal services in Iowa. Iowa American Water Company is a subsidiary of [American Water](#).

Assumptions

According to an August 2020 rate increase filing by the company, Iowa American Water Company expects 2022 operating revenue to equal \$46.2 million and projects State corporate income tax expenses for that year to equal \$0.5 million. This includes \$4.4 million from the requested rate increase. The rate increase filing also lists an expected deferred State corporate income tax amount of \$0.6 million. The amounts supplied by the company to the Iowa Utilities Board indicate that annual Iowa corporate income tax liability represents 1.0% of company revenue and deferred State corporate income tax represents a potential additional one-time cost equal to 1.0% of annual company revenue.

The tax exemption will begin with the start of the company's tax year that begins in calendar year 2023. The start of the company's tax year is not known but is assumed for this estimate to be the calendar year. The company is assumed to make quarterly corporate income tax payments equal to 25.0% of projected liability for a tax year.

Fiscal Impact

The proposed corporate income exemption for public water/wastewater income is projected to reduce Iowa General Fund revenue by \$0.9 million in FY 2023 and FY 2024 and \$0.5 million in FY 2025 and succeeding fiscal years.

Source

[Iowa Utilities Board Rate Filings](#)

/s/ Holly M. Lyons

March 23, 2021

Doc ID 1217815

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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