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Fiscal Note

Fiscal Services Division

SF 609 – Economic Assistance and Housing, Omnibus (LSB2820SV)
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Fiscal Note Version – New

Description

Senate File 609 has eight divisions related to economic development programs, economic development tax incentives, and implementation of the contingent individual income tax system created in 2018 Iowa Acts, chapter 1161.

Division I — Economic Development Authority Annual Tax Credit Limits

Description and Background

The Bill reduces the maximum amounts of annual tax credits that the Economic Development Authority (EDA) may issue in a year for the High Quality Jobs program and the Renewable Chemical Production Tax Credit program. The changes are effective upon enactment and apply to annual tax credit limits for FY 2022 and after.

The annual tax credit limit for the High Quality Jobs program is established in Iowa Code section 15.119. The tax credit cap has varied over time, with the FY 2016 through FY 2020 cap averaging $107.0 million. Over those five fiscal years, tax incentives awarded through the High Quality Jobs program have averaged $53.9 million per year. The Bill establishes a lower annual cap of $70.0 million. The program has not awarded more than $70.0 million since FY 2016.

The Renewable Chemical Production Tax Credit program was first available in FY 2017. The annual cap is $10.0 million. Since inception, the program has awarded a total of $3.3 million in tax credits, with FY 2020 being the highest award year at $1.3 million. The Bill lowers the cap for this program to no more than $5.0 million in tax credits per year.

Assumptions (Division 1)

- The Bill lowers the annual maximum tax credit limit for the High Quality Jobs program to $70.0 million. The EDA has not awarded more than $70.0 million since FY 2016 and the FY 2020 award total was $26.0 million. Based on this history, it is assumed that the $70.0 million annual cap will not reduce the amount of credits awarded by the EDA in the foreseeable future.
- The Bill lowers the annual maximum tax credit limit for the Renewable Chemical Production Tax Credit program to $5.0 million. The EDA has not awarded more than $1.3 million in a year since the program's inception in FY 2017. Based on this history, it is assumed that the $5.0 million annual cap will not reduce the amount of credits awarded by the EDA in the foreseeable future.

Division II — High Quality Jobs Qualifications

Description

The Bill allows award recipients to benefit from, or to continue to benefit from, High Quality Jobs incentives in certain instances where current law may cause awarded benefits to be not available or to be rescinded. The Bill allows the EDA to ignore an applicant's reduction in operations if the reduction occurred after March 1, 2020, and was caused by COVID-19. The change is effective through June 30, 2022.

Assumption (Division II)

The temporary, permissive business qualification language is assumed to not have a direct impact on State revenue or expenditures.

Division III — Manufacturing 4.0 Technology Investment

Description

The Bill creates a Manufacturing 4.0 Technology Investment program to be administered by the EDA. Manufacturing 4.0 technology investments are defined as projects intended to lead to the adoption and integration of smart technologies into existing manufacturing operations. The purpose of the new financial assistance program is to mitigate the risk to manufacturers that might occur through significant technology investments. A fund is created for the program and the fund may be administered by the EDA as a revolving fund. The Bill allows the new fund to receive appropriations, but no appropriation is provided in the Bill. Financial assistance to a qualified manufacturing business is limited to no more than $75,000. Eligible manufacturing businesses must:

- Manufacture goods at a facility in Iowa.
- Be classified as a manufacturer.
- Have existed as a business for at least three years prior to the application for financial assistance.
- Derive a minimum of 51.0% of the manufacturer's overall revenue from the sale of manufactured goods.
- Employ a minimum of three, and a maximum of 75, full-time employees.
- Have an assessment of the proposed investment completed by the Center for Industrial Research at Iowa State University.
- Provide matching financial support.

Assumption (Division III)

The Bill does not provide a funding source for the Manufacturing 4.0 Technology Investment program created in the Bill, and therefore the Division is assumed to not have a direct impact on State revenue or expenditures.

Division IV — Alternate Energy Revolving Loan Fund

Description

The Bill ends funding for the Alternate Energy Revolving Loan Fund and transfers the ending balance in that Fund as well as any future loan repayments to a new Energy Infrastructure Revolving Loan program. This change is effective beginning FY 2022.

Assumptions (Division IV)

- The Bill requires the FY 2021 ending balance in the Alternate Energy Revolving Loan Fund, as well as future loan repayments to that Fund, to be transferred and deposited into the new Energy Infrastructure Revolving Loan Fund.
- The Alternate Energy Revolving Loan Fund is created in Iowa Code section 476.46 and the Fund is administered by the Iowa Energy Center (Iowa Code section 15.120).
- The balance in the Alternate Energy Revolving Loan Fund at the conclusion of FY 2021 is projected to be $14.4 million.
- Future loan repayments that are due to the Alternate Energy Revolving Loan Fund in FY 2022 and after are estimated to total $3.3 million.

Division V — Workforce Housing Tax Credits

Description

The Bill increases the maximum amount of tax credits allowed under the Workforce Housing Tax Incentives program and also increases the set-aside amount reserved for small cities. Currently, the program is limited to $25.0 million per year and the small city set-aside is $10.0 million. The Bill increases the tax credit maximum to $40.0 million for FY 2022 and $30.0 million for FY 2023 and after. The small city set-aside is increased to $12.0 million for FY 2022 and $15.0 million for FY 2023 and after.

Assumptions (Division V)

- The fiscal impact of increasing the annual tax credit limits for the Workforce Housing Tax Incentive program by $15.0 million for FY 2022 and $5.0 million for FY 2023 and after was estimated by the Department of Revenue utilizing historical patterns of tax credit awards and tax credit redemptions over the history of the program.
- The changes to the allocation of a portion of the total annual cap to small cities is assumed to be included within the fiscal impact of raising the program cap.

Division VI — Redevelopment Tax Credit

Description

The Bill extends the Redevelopment Tax Credit (brownfields and grayfields) program 10 years, to June 30, 2031. The Division also allows the amount of Redevelopment Tax Credits that were revoked or were otherwise never awarded over the previous five years to be added to the annual maximum credit cap for the program in a future year. The changes are effective upon enactment.

Assumptions (Divisions VI)

- The 10-year extension of the Redevelopment Tax Credit program is assumed to result in an additional $10.0 million in annual awards for FY 2022 through FY 2031.
- The amount of tax credits revoked or otherwise not awarded over the past five years is estimated by the EDA to equal $5.0 million. This additional amount may be issued above the annual tax credit limit in FY 2022 and after. It is assumed that an additional $2.0 million will be awarded in FY 2023 and in FY 2024, and $1.0 million in FY 2025 due to this provision.
- Tax credits awarded in a fiscal year are assumed to be redeemed on the following schedule:
    - Fiscal year of award = 0.0%

- Second fiscal year = 5.0%
- Third fiscal year = 15.0%
- Fourth through seventh fiscal year = 20.0%

Division VII — Paycheck Protection Program

Description

The Bill 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).

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.

Assumption (Division VII)

- 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 will 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 the following table. It is anticipated that taxpayers will file returns or amended returns for TY 2019, prior to the end of FY 2021.

Paycheck Protection Program Tax Exemption
Projected General Fund Revenue Reduction
Dollars in Millions

Taxpayer Type	PPP Net Income	Marginal Tax Rate	Tax Reduction
Nonprofits	$ 19.7	0.0%	$ 0.0
C Corporations	$ 43.2	6.40%	$ 2.8
S Corps & Partnerships	$ 38.2	5.58%	$ 2.1
Individuals	$ 6.7	5.35%	$ 0.4
	$ 107.8		$ 5.3

Division VIII — Contingent Income Tax System Triggers

Description

2018 Iowa Acts, chapter 1161, Division IX, made future changes to how Iowa individual income tax liability is calculated. The effective date of Division IX of the 2018 legislation is contingent upon Iowa General Fund revenue reaching two revenue targets, or triggers, at the conclusion of a fiscal year. The two triggers are:

- Actual General Fund net revenue for the fiscal year equals or exceeds $8,314,600,000.

- Actual General Fund net revenue for the fiscal year equals or exceeds 104.0% of the actual General Fund net revenue for the previous fiscal year.

Under the provisions of section 133 of the 2018 legislation, the first year that the two targets may be met is FY 2022, and the first year that the changes in Division IX of the 2018 legislation may become effective is TY 2023.

At the March 2021 meeting of the Revenue Estimating Conference (REC), the REC established an FY 2022 General Fund estimate of $8,385.6 million and a growth rate of 3.8% compared to the FY 2021 estimate of $8,078.9 million. The FY 2022 revenue projection is therefore $71.0 million above the dollar trigger but 0.2 percentage points below the required 4.0% growth trigger. While the REC projection does not meet the trigger requirements, it does not mean that both triggers will not or cannot be met at the conclusion of FY 2022, but it does mean that the triggers are not projected to be met for FY 2022 at this time.

Assumptions (Division VIII)

- The first fiscal year both triggers may be met under current law is FY 2022, and if both triggers are met that year, the contingent income tax system becomes effective for TY 2023 and after. However, in March 2021, the REC established an FY 2022 revenue estimate that does not achieve both triggers at the conclusion of that fiscal year. Therefore, this projection assumes FY 2023 will be the first year that both triggers are met and that the contingent income tax system will become effective for TY 2024 and after.
- The Department of Revenue utilized the individual income tax micromodel to calculate the tax reduction associated with the change to the contingent income tax system for TY 2023. The fiscal impact was determined by comparing model results of tax liability under current law (existing individual income tax system for TY 2023) versus tax liability under the Bill (contingent income tax system for TY 2023). Although removing the triggers only directly changes the tax system for one year (TY 2023), the change also has a projected impact in TY 2024 as taxpayers adjust for federal tax payments made and refunds received in TY 2024 that relate to TY 2023 and before. The change also has an ongoing impact on income tax brackets as the brackets are established in the contingent system as specific income levels that are then indexed each tax year after the first implementation year. Implementing the contingent tax system one year earlier will mean that tax brackets are lower by one year's worth of indexing for all future years. The Department model estimates the TY 2023 change will reduce State individual income tax liability by the following amounts:
  - TY 2023 = $297.6 million
  - TY 2024 = $43.7 million
  - TY 2025 and after = $8.0 million per tax year
- The tax year impacts are assumed to be distributed 52.0% to the fiscal year that ends during the tax year through reduced withholding and estimate payments and 48.0% to the succeeding fiscal year through reduced withholding, estimate payments, payments with tax returns, and increased tax refunds.
- The reduction in State income tax liability will reduce the amount raised by the local option income surtax for schools by 3.0% of State income tax reduction.
- Other changes made within the contingent income tax system (2018 Iowa Acts, chapter 1161, sections 128 through 130) are projected to reduce FY 2024 corporate income tax liability by $17.9 million and bank franchise tax liability by $2.0 million.

Summary of Fiscal Impact

Divisions V through VIII are projected to have negative impacts on Iowa General Fund revenue as presented in the following table.

Projected General Fund Revenue Change by Provision and Fiscal Year
In Millions

Division	V Workforce Housing	VI Redevelopment Tax Credit	VII Paycheck Protection Program	VIII Individual Income Tax Triggers	VIII Corporate and Bank Income Tax Triggers	Total
FY 2022	$ -6.1	$ 0.0	$ -5.3	$ 0.0	$ 0.0	$ -6.1
FY 2023	-8.4	-0.6	0.0	-154.6	0.0	-163.6
FY 2024	-8.0	-2.4	0.0	-160.2	-19.9	-190.5
FY 2025	-6.4	-4.8	0.0	-30.1	0.0	-41.3
FY 2026	-6.1	-7.0	0.0	-8.4	0.0	-21.5

The Workforce Housing Tax Incentive program negative revenue impact will continue at a similar level to FY 2026 in future years. The 10-year extension for the Redevelopment Tax Credit program will have an additional projected $90.3 million negative impact on General Fund revenue over the period of FY 2027 through FY 2037.

The requirement to transfer moneys from the Alternate Energy Revolving Loan Fund will result in the deposit of $17.7 million in ending balance and future loan repayments to the Energy Infrastructure Revolving Loan program that is created in the Bill.

Sources

Department of Revenue
Economic Development Authority
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.