Fiscal Note

Fiscal Services Division

SF 619 – Taxation and Other Provisions (LSB2832XC)

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Fiscal Note Version – New

Description

Senate File 619 relates to State and local taxation, tax policy, and economic incentive programs. The Bill also contains provisions related to:

- Telehealth coverage through health insurance.
- A new Manufacturing 4.0 Technology Investment Program.
- A new Disaster Recovery Housing Assistance Program and Fund.
- A new Energy Infrastructure Revolving Loan Program.

Provisions of the Bill have various effective dates, including retroactive effective dates. Figures 6, 7, and 8 summarize the fiscal impact of the various Bill divisions and can be found at the end of this fiscal note.

Division I — Contingent Income Tax System Triggers

Description and Background

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 $8,314.6 million.
- 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.

The Bill amends the 2018 Iowa Acts by striking the two conditions necessary for the trigger to occur and specifies that the provisions in the 2018 law take effect January 1, 2023.

Assumptions/Fiscal Impact (Division I)

- The first fiscal year both triggers may be met under current law is FY 2022, and if both triggers are met that fiscal 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, the current-law 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. Reductions by fiscal year:
    - FY 2023 = $154.6 million
    - FY 2024 = $180.1 million
    - FY 2025 = $30.1 million per tax year
- 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.

Division II — Early Childhood and Child and Dependent Care Tax Credits

Description and Background

The Bill increases the maximum net income amount used in determining eligibility for the Early Childhood Development (ECD) and Child and Dependent Care (CDC) Tax Credits. The maximum is increased from $45,000 to $90,000. The change is retroactive to tax years beginning on or after January 1, 2021.

The ECD is equal to 25.0% of the first $1,000 in early childhood development (preschool) expenses the taxpayer pays to others for each dependent aged three through five.

The federal CDC Tax Credit is equal to up to 35.0% of eligible child care expenses for qualified children and dependents. The Iowa CDC Tax Credit is calculated as a percentage of the federal CDC Tax Credit. The Iowa credit is refundable. The Iowa CDC Tax Credit ranges from

75.0% of the federal credit for taxpayers with net income of less than $10,000, to 30.0% for taxpayers with net income of $40,000 to $44,999. The Iowa CDC Tax Credit is not available to taxpayers with net income of $45,000 or more. The Bill increases the $45,000 income limit for the 30.0% tax credit to $90,000.

Assumptions/Fiscal Impact (Division II)

The number of taxpayers benefiting from the increase in the maximum net income amount for the CDC and ECD Tax Credits, as well as the tax credit value, was estimated by the Department of Revenue using the Department's computer model of Iowa income tax returns. That model utilizes actual State and federal tax return data from TY 2019 to simulate tax returns filed for future tax years. The model gives the Department the ability to change tax parameters and determine the estimated fiscal impact of those changes on tax liability and State General Fund revenue.

Figure 1

CDC and ECD Tax Credit Net Income Maximum Increase
Estimated Taxpayer Benefit by Tax Year

	Resident Taxpayers			Nonresident Taxpayers			All Taxpayers		
	Number of Taxpayers	Average Tax Credit	Tax Credit Total	Number of Taxpayers	Average Tax Credit	Tax Credit Total	Number of Taxpayers	Average Tax Credit	Tax Credit Total
TY 2021	24,530	$ 171	$ 4,194,672	1,555	$ 68	$ 105,746	26,085	$ 165	$ 4,300,418
TY 2022	24,082	171	4,117,953	1,488	69	102,674	25,570	165	4,220,627
TY 2023	23,511	171	4,020,366	1,410	71	100,132	24,921	165	4,120,498
TY 2024	25,710	180	4,627,775	1,765	70	123,562	27,475	173	4,751,337
TY 2025	25,955	186	4,827,594	1,682	70	117,760	27,637	179	4,945,354
TY 2026	26,947	190	5,120,000	1,806	72	130,000	28,753	183	5,250,000

To convert tax year impacts to fiscal year impacts, the following timing assumptions are made:

- Fiscal year 2021 ends June 30, 2021. Given the retroactive application to TY 2021, 15.0% of the TY 2021 impact is assumed to fall in FY 2021 and 85.0% in FY 2022.
- Impacts for tax year 2022 and after are assumed to fall 65.0% in the first fiscal year and 35.0% in the second fiscal year.

The changes to the Iowa CDC and ECD Tax Credits contained in the Bill are projected to reduce net General Fund revenue by the following amounts:

- FY 2021 = $0.6 million
- FY 2022 = $6.4 million
- FY 2023 = $4.2 million
- FY 2024 = $4.5 million
- FY 2025 = $4.9 million
- FY 2026 and after = $5.1 million

As refundable tax credits, the changes do not impact the calculation of the local option income surtax for schools. Expected implementation costs for the Department of Revenue are assumed to be minimal. Given the expanded number of taxpayers projected to claim the credits, enforcement costs for the Department will increase.

Division III — COVID-19 Grant Tax Exemption

Description and Background

The Bill exempts the proceeds of grants received by a taxpayer from COVID-19 assistance programs administered by the Economic Development Authority (EDA), the Iowa Finance

Authority (IFA), and the Department of Agriculture and Land Stewardship (DALS) from the State corporate and individual income tax. The income exclusion provided in the Bill is repealed on January 1, 2024, and does not apply to tax years beginning on or after that date.

Assumptions/Fiscal Impact (Division III)

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. The Department of Revenue estimates that $307.8 million in COVID-19 assistance grants has been distributed through these grant programs. 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% for taxed entities.
- 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 fiscal impact is estimated to be a reduction of $9.2 million in FY 2021 and $1.0 million in FY 2022.

Division IV — Paycheck Protection Program Taxation

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/Fiscal Impact (Division IV)

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 **Figure 2**. It is anticipated that taxpayers will file returns or amended returns for TY 2019 prior to the end of FY 2021.

Figure 2

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 V — Capital Gains on Installment Sales

Description and Background

Division I of this Bill removes the State General Fund triggers that are required to be met in order for the contingent individual income tax system to begin. Removal of the trigger requirements means that the new system will commence starting January 1, 2023 (TY 2023). A provision of the contingent system alters the taxation of capital gains. Division V of this Bill provides that capital gains-producing sales that have occurred or will occur prior to January 1, 2023, will be subject to Iowa income tax under the provisions in place prior to January 1, 2023, and sales that occur on or after January 1, 2023, will be taxed under the new system. This change will apply to the capital gains realized on installment sales where the sale occurred prior to January 1, 2023, but payments from the sale continue beyond that date.

Assumptions/Fiscal Impact (Division V)

- The Department of Revenue estimates that annual installment capital gains for sales that have occurred or will occur before January 1, 2023, will average $200.0 million per year.
- The average marginal individual income tax rate on capital gains once the contingent income tax system is in place is assumed to be 5.23%.
- The tax reduction is assumed to occur when individual income tax returns are due for TY 2023 and after.
- The combination of the three previous assumptions produces a projected income tax reduction of $11.1 million per year, beginning FY 2023.
- As installment sales made prior to January 1, 2023, reach their individual conclusions, the annual negative fiscal impact of this law change on the State General Fund will decline.

Division VI — Inheritance Tax

Description and Background

The Bill increases the value of estates that are exempt from Iowa inheritance tax regardless of the relationship of the inheritor to the decedent in three annual steps and also phases down the inheritance tax rate by reducing the applicable tax rate by 25.0% each year for three years. For deaths occurring on or after January 1, 2024, the Bill eliminates the inheritance tax.

Under current law, an inheritance from an estate with a net value of less than $25,000 is not subject to the Iowa inheritance tax. In the Bill, this maximum value is increased over three years. The exempt value is increased to:

- $300,000 for deaths occurring between January 1, 2021, and December 31, 2021 (retroactive effective date).
- $600,000 for deaths occurring between January 1, 2022, and December 31, 2022.
- $1,000,000 for deaths occurring between January 1, 2023, and December 31, 2023.

The exemption amounts under current law and under the Bill relate to the size of the decedent's net estate (value of the entire estate after deducting liabilities and allowed estate expenses) that may benefit from the exemption. The exemption does not provide a benefit to the inheritors of an estate with a higher net value than the exemption amount.

An inheritance received by a lineal ascendant or descendant of the deceased is exempt from the Iowa inheritance tax no matter the value of the estate or the amount inherited. Tax rates from 5.0% to 15.0% may apply to inheritances that are not otherwise exempt under Iowa Code chapter 450. Inheritance tax returns are generally due nine months after the death of the decedent.

A gross total of $81.5 million in Iowa inheritance tax was deposited to the State General Fund in FY 2020. Over the past six years, refunds of Iowa inheritance tax have averaged $2.4 million. Forecasted Iowa inheritance tax gross receipts for FY 2021 and FY 2022 equal $88.0 million and $91.3 million respectively. Iowa inheritance tax refunds are not forecasted separately.

Assumptions/Fiscal Impact (Division VI)

The Department of Revenue analyzed a sample of 150 Iowa inheritance tax returns filed over the past five years to produce this estimate. The tax involved with the future returns is assumed to reach the State General Fund nine months after the death of the decedent.

The DOR estimates that raising the value of an estate that is exempt from the Iowa inheritance tax and then repealing the tax beginning with deaths occurring on or after January 1, 2024, will reduce Iowa General Fund revenue by the following annual amounts:

- FY 2022 = $23.3 million
- FY 2023 = $51.1 million
- FY 2024 = $78.3 million
- FY 2025 = $98.8 million
- FY 2026 = $105.6 million

Fiscal Impact — State Administration Issues

Division VI of the Bill phases out and eliminates the State inheritance tax. The Bill provides for the removal of inheritance tax references from the Iowa Code. There are certain situations where the tax due under current law is deferred until a later date. While the Department of Revenue states that the authority to collect the deferred inheritance tax likely will still exist without the inheritance tax remaining in the Iowa Code, the Department recommends that the authority to collect deferred inheritance taxes specifically remain as part of the Iowa Code until all deferred taxes have been paid.

Division VII — Real Estate Transfer Tax to Housing Trust Fund

Description and Background

Iowa imposes a Real Estate Transfer Tax at a rate of $0.80 for every $500 of the price paid for the property when real property is sold or otherwise transferred. The first $500 of property is exempt. A list of exempt transfers is provided in Iowa Code section 428A.2. The tax is paid to the county. The county retains 17.25% of the tax and remits the remaining 82.75% to the State. Under current law, the State portion is deposited to three funds:

- 30.0% to the Housing Trust Fund, subject to a maximum fiscal year deposit of $3.0 million.
- 5.0% to the Shelter Assistance Fund.
- The remainder to the State General Fund.

The Bill raises the Housing Trust Fund maximum to $7.0 million per fiscal year, beginning with FY 2022.

Assumptions/Fiscal Impact (Division VII)

- The FY 2020 State portion of the Real Estate Transfer Tax totaled $24.5 million. Of that amount, the Housing Trust Fund received $3.0 million, the Shelter Assistance Fund received $1.2 million, and the State General Fund received $20.3 million.
- State Real Estate Transfer tax receipts are assumed to exceed $23.3 million for FY 2022 and succeeding fiscal years; therefore, it is assumed that the Housing Trust Fund will receive the full $7.0 million allocation each year, reducing General Fund revenue by $4.0 million per year beginning in FY 2022.

Division VIII — High Quality Jobs Program Day Care Centers

Description

The Bill amends the eligibility requirements under the High Quality Jobs Program to allow the Economic Development Authority (EDA) to consider whether a proposed project will provide a licensed child care facility for use by the business's employees.

Assumptions (Division VIII)

Allowing the EDA to consider the inclusion of a licensed child care facility when determining the eligibility of a business for economic assistance under the High Quality Jobs Program is not projected to have a significant fiscal impact beyond what is assumed for the High Quality Jobs Program in general.

Division IX — Tax Credits for Investments in Qualifying Businesses and Equity Investments in Innovation Funds

Description and Background

Current law specifies that the EDA must allocate $2.0 million per year in potential tax credit awards to investments in qualifying businesses and $8.0 million in potential tax credits to equity investments in innovation funds. The Bill changes the requirements so that, beginning with FY 2022, the EDA is required to allocate $10.0 million in potential tax credits to the two programs combined and without any specified allocation to one program or the other.

The Bill also allows the EDA to allocate any potential tax credits that were not awarded during a fiscal year to projects in the next fiscal year without those credit allocations counting toward the annual $10.0 million limit. This change is also effective beginning FY 2022.

Assumptions/Fiscal Impact (Division IX)

- Over the six fiscal years (FY 2015 through FY 2020), the EDA has awarded an average of $3.8 million to the two programs combined, with $2.0 million of that total awarded to investors in qualifying businesses and an average of $1.8 million awarded to equity investors in innovation funds. Therefore, placing both programs under the total $10.0 million annual tax credit cap will allow more tax credits to be awarded under the qualifying business program without a reduction in the awards to investors in innovation funds.
- Since the qualifying business program has utilized its full $2.0 million tax credit cap in recent years, it is unknown how much investor interest there is in this type of investment and associated tax credit. For this projection, it is assumed that $5.0 million per year in qualifying business tax credit awards will be made each fiscal year, beginning with FY 2022. This is an increase of $3.0 million per year when compared to current law.
- Once awarded, the tax credits are assumed to be redeemed according to the following schedule:
  - Fiscal year of award = 65.0%
  - Fiscal year after fiscal year of award = 35.0%

Amalgamating the qualifying businesses and innovation fund tax credit annual limits into a single $10.0 million limit is projected to reduce General Fund revenue by $2.0 million for FY 2022 and $3.0 million for FY 2023 and after.

Division X — Telehealth Parity

Description and Background

The Bill requires Iowa health carriers to reimburse health care professionals or facilities for health care services for mental health conditions, illnesses, injuries, or diseases provided to a covered person by telehealth on the same basis and at the same rate as the health carrier would apply to the same mental health care services provided to a covered person by the health care professional or facility in person. This requirement would become effective upon enactment, and is retroactive to January 1, 2021.

Between 2018 and 2019, the number of telehealth visits increased by more than 460.0% for persons covered by a State of Iowa health plan, and the number increased in 2020 by more than 4,800.0% across all conditions. In 2020, the number of telehealth visits increased by 6,000.0% for mental health-related conditions. The average amount paid in 2019 for mental health-related services provided via telehealth was approximately $80 per visit. In 2020, this increased to around $138, owing to the following three changes:

- As telehealth became much more common/preferred in 2020 (likely due to the COVID-19 pandemic), the mix of services changed and more costly services that had previously only been done in person were performed via telehealth.
- Carriers (and self-funded plans, like the State of Iowa Plan) agreed to reimburse telehealth services at parity with in-person alternatives.
- Carriers (and self-funded plans, like the State of Iowa Plan) covered member cost sharing related to services received by telehealth.

Assumptions (Division X)

- In FY 2021 and beyond, the telehealth utilization trend for individuals with coverage will align more closely with utilization of in-person office visits.
- Based on current utilization trends, the utilization of telehealth services for mental health-related conditions for State of Iowa Plan members will be roughly 1,425 visits each week.

- Telehealth parity will increase the per visit cost as carriers, including the State of Iowa Plan, are required to match the costs associated with in-person services.
- The amount paid by the State of Iowa Plan will be roughly $128 per visit.
- To pay at parity for mental health services delivered through telehealth, instead of at 75.0% of the in-person rate, the additional cost per visit will be $34.50.

Fiscal Impact — Telehealth

The estimated cost increase to the State of Iowa Plan for reimbursing health care professionals and facilities for mental health services delivered via telehealth is estimated to be $2.6 million for the first year of implementation. As health care costs increase and utilization patterns change, additional costs are expected in subsequent fiscal years.

Telehealth Claims Paid Through Medicaid

Currently, there is no available data on telehealth claims paid through Medicaid. However, Medicaid currently pays Area Education Agencies (AEAs) and local education agencies (LEAs) for behavioral health services identified in a student's Individualized Education Plan; subsequently, the AEAs and LEAs return the State portion of the payment to Iowa Medicaid Enterprise for those services. The fiscal impact of telehealth parity cannot be determined at this time for these cases as schools, AEAs, and LEAs maintain the authority to negotiate how services are to be reimbursed.

Division XI — 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 lowers the annual cap to $70.0 million. The Program has not awarded more than $70.0 million since FY 2016 and based on this history, it is assumed that the $70.0 million cap will not reduce the amount of credits awarded.

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, but it is assumed that the new cap will not reduce the amount of credits awarded.

Division XII — High Quality Jobs Program Eligibility Requirements

Description

The Bill allows award recipients to benefit from, or to continue to benefit from, High Quality Jobs Program incentives in certain instances where current law may cause awarded benefits to not be 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/Fiscal Impact (Division XII)

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

Division XIII — Manufacturing 4.0

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 3, 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/Fiscal Impact (Division XIII)

The Bill does not provide any new funding source for the Manufacturing 4.0 Technology Investment Program created in the Bill. The Bill states that the new Program may be funded by any moneys appropriated for the purpose by the General Assembly and "any other moneys that are lawfully available to the Authority." The Bill does not provide any funding for administration of the new Program.

Division XIV — 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. 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).

Assumptions/Fiscal Impact (Division XIV)

- 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.
- Administrative costs will be covered by the new Fund. The EDA is allowed to use up to 5.0% of the moneys in the Disaster Recovery Housing Assistance Fund to administer the new programs created in the Bill.

The requirement to transfer moneys from the Alternate Energy Revolving Loan Fund will result in the projected 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.

Division XIV creates a new Energy Infrastructure Revolving Loan Fund and associated Program. The Bill assigns the new Fund and Program to the Iowa Energy Center, created in Iowa Code section 15.120. Under current law, the Iowa Code authority for the Iowa Energy Center is repealed July 1, 2022, one year after the new Fund and Program are created.

Division XV — 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, $35.0 million for FY 2023, and $30.0 million for FY 2024 and after. The small city set-aside is increased to $12.0 million for FY 2022, to as much as $20.0 million for FY 2023, and $15.0 million for FY 2024 and after.

Assumptions/Fiscal Impact (Division XV)

- The fiscal impact of increasing the annual tax credit limits for the Workforce Housing Tax Incentive Program by $15.0 million for FY 2022, $10.0 million for FY 2023, 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.

Increasing the annual tax credit limit for the Workforce Housing Tax Incentives Program is projected to reduce General Fund revenue by the following amounts:

- FY 2022 = $5.3 million
- FY 2023 = $9.0 million
- FY 2024 = $8.7 million
- FY 2025 = $6.4 million
- FY 2026 = $5.2 million
- FY 2027 and after = $5.1 million

Division XVI — Redevelopment Tax Credit

Description

The Redevelopment Tax Credit (brownfields and grayfields) Program expires under current law at the end of FY 2021. The Bill extends the Program 10 years, to June 30, 2031, and establishes an annual aggregate maximum credit level of $15.0 million, beginning FY 2022. The Bill 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/Fiscal Impact (Division XVI)

- The 10-year extension of the Redevelopment Tax Credit Program is assumed to result in an additional $15.0 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. Under the Bill, 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 will be awarded in FY 2025 as a result of 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%

Extending and increasing the annual tax credit limit for the Redevelopment Credit is projected to reduce General Fund revenue by the following amounts:

- FY 2022 = $0.9 million
- FY 2023 = $3.4 million
- FY 2024 = $6.8 million
- FY 2025 = $10.0 million
- FY 2026 = $13.0 million
- FY 2027 = $16.0 million

Division XVII — Downtown Loan Guarantee Program

Description

The Bill creates a new Downtown Loan Guarantee Program to be administered by the EDA in partnership with the IFA. The Program may guarantee qualified loans up to 50.0% of the amount of the loan, subject to a maximum guarantee of $250,000. A loan may be guaranteed for up to 10 years, including extensions. To qualify, the guaranteed loan must meet specified conditions, including but not limited to:

- The loan finances:
  - An eligible Downtown Resource Center Community Catalyst Building Remediation Grant project, or
  - A Main Street Iowa Challenge Grant within a designated district.
- The loan finances a rehabilitation project.
- The project includes a housing component.
- The loan is used for construction and/or permanent financing of the project.
- A federally-insured financial institution issued the loan.
- The project meets Downtown Resource Center and Main Street Iowa design review.

Assumptions/Fiscal Impact (Division XVII)

The Bill does not provide any new funding source for the Downtown Loan Guarantee Program created in the Bill. The Bill states that the new Program may be funded by any moneys appropriated for the purpose by the General Assembly and "any other moneys that are lawfully available to the Economic Development Authority." The Bill does not provide funding for administration of the new Program.

Division XVIII — Disaster Recovery Housing Assistance Program and Fund

Description

The Bill creates a new Disaster Recovery Housing Assistance Program and Disaster Recovery Housing Assistance Fund for the development and operation of a forgivable loan and grant program for homeowners and renters with disaster-affected homes, and for an eviction prevention program. The new programs may be financed through the transfer of unobligated moneys available in the Senior Living Revolving Loan Program Fund, the Home and Community-Based Services Revolving Loan Program Fund, the Transitional Housing Revolving Loan Program Fund, and the Community Housing and Services for Persons with Disabilities Revolving Loan Program Fund. All four listed funds are under the control of the IFA. In addition, the Bill grants, with the written consent and approval of the Governor, the authority to transfer any unobligated moneys in any IFA or EDA fund created in Iowa Code section 16.5(1)(s) or 15.106A(1)(o). This Division of the Bill is effective upon enactment.

Assumptions/Fiscal Impact (Division XVIII)

The language allowing the transfer of unobligated balances from IFA and EDA funds is permissive. The unobligated balances in the listed IFA and EDA funds are not known.

Administrative costs will be covered by the new Fund. The EDA is allowed to use up to 5.0% of the moneys in the Disaster Recovery Housing Assistance Fund to administer the new programs created in the Bill.

Division XIX — Bonus Depreciation and Interest Deduction

Description and Background

Under traditional tax accounting, when a business purchases equipment and other capital assets that have a long expected useful life, the expense deduction associated with the purchases are spread (deducted) for tax purposes over the useful life of the asset. An item purchased with a 20-year useful life may be recorded as a business expense in 20 equal installments spanning 20 tax years. However, current federal law allows taxpayers to immediately deduct a higher portion of the asset cost in the year of purchase. This accelerated deduction is commonly referred to as bonus depreciation. Bonus depreciation reduces business taxable income in the initial year by increasing allowed business expenses. Bonus depreciation then increases taxable income in succeeding years as the business has a lower expense level to deduct due to their use of bonus depreciation in the initial year.

Federal bonus depreciation is currently available at 100.0% of the asset cost, meaning that for qualifying purchases, the entire cost can be deducted in the year of purchase. This percentage is scheduled to phase down to 20.0% by tax year 2026 and then be eliminated for tax year 2027.

Iowa Code section 422.7(60) decouples Iowa tax law with a federal provision that limits the amount of interest certain companies can claim as a business expense deduction. This decoupling means that for Iowa tax purposes, the interest deduction is not limited. However, under the provisions of the decoupling language, the decoupling is only available for tax years in which Iowa does not allow businesses to use bonus depreciation.

Iowa tax law is not currently coupled with federal bonus depreciation provisions. The Bill couples Iowa tax law with federal bonus depreciation for qualified equipment and other capital assets purchased on or after January 1, 2021. The change does not allow bonus depreciation for State tax purposes for purchases made prior to January 1, 2021. Under the provisions of Iowa Code section 422.7(60), the allowance for bonus depreciation will also couple Iowa tax law with the federal interest expense limitation.

Assumptions/Fiscal Impact (Division XIX)

The estimated fiscal impacts of the Division were calculated by the Department of Revenue based on national estimates published by the Joint Committee on Taxation. The Department estimates assume that 90.0% of the bonus depreciation and interest deduction impacts will result in changes to corporate income tax liability and 10.0% will result in changes to individual income tax liability.

The Department analysis concludes that the changes to bonus depreciation will initially result in State General Fund revenue decreases, followed by State General Fund revenue increases beginning with FY 2027. The Department analysis concludes that the associated change in the business interest deduction will result in increased State General Fund revenue.

Figure 3

Projected Tax Revenue Change — Bonus Depreciation and Interest Deduction
In Millions

	Corporate Income Tax			Individual Income Tax			Individual and
	Bonus Depreciation	Interest Deduction	Corporate Total	Bonus Depreciation	Interest Deduction	Individual Total	Corp. Income Tax Total
FY 2022	$ -18.6	$ 3.4	$ -15.2	$ -10.3	$ 0.4	$ -9.9	$ -25.1
FY 2023	-13.3	5.2	-8.1	-7.6	0.6	-7.0	-15.1
FY 2024	-10.9	9.3	-1.6	-3.9	1.0	-2.9	-4.5
FY 2025	-8.3	11.3	3.0	0.6	1.3	1.9	4.9
FY 2026	-4.7	12.8	8.1	2.7	1.4	4.1	12.2
FY 2027	2.9	14.7	17.6	6.1	1.6	7.7	25.3

Division XX — Beginning Farmer Tax Credit

Description

The Beginning Farmer Tax Credit Program provides tax incentives to owners of agricultural assets who enter into leases or other agricultural contracts with qualified beginning farmers. The current tax credit is equal to 5.0% of qualified cash rent payments or 15.0% of the market price of the commodity produced on the land subject to the lease. The owner of the agricultural asset(s) subject to a qualified agreement receives the benefit of the tax credit.

A farmer qualifies as a beginning farmer by meeting all of the following criteria:

- Is a resident of Iowa.
- Has sufficient education, training, or experience in farming.
- Has access to adequate working capital and production items.

- Will materially and substantially participate in farming.
- Does not own more than a 10.0% ownership interest in an agricultural asset included in the agreement with the taxpayer.

The Program is subject to a maximum award amount (cap) of $12.0 million per calendar year. Tax credits awarded under the Program totaled $6.4 million for CY 2019 and $6.5 million for CY 2020. The highest total for a year was CY 2017 at $9.6 million. The full award history is provided in **Figure 4**.

Figure 4

Beginning Farmer Tax Credit Program Awards
In Millions

Award Year	Award Amount	Award Year	Award Amount
CY 2007	$ 1.3	CY 2014	$ 6.5
CY 2008	2.0	CY 2015	7.0
CY 2009	2.7	CY 2016	8.6
CY 2010	3.6	CY 2017	9.6
CY 2011	5.2	CY 2018	6.0
CY 2012	5.8	CY 2019	6.4
CY 2013	6.0	CY 2020	6.5

The Bill expands the existing Beginning Farmer Tax Credit Program. The Bill:
- Specifies that an agricultural asset subject to a qualified agreement may include an agricultural improvement (building).
- Removes a requirement that a qualified lease must include agricultural land.
- Increases the current 10-year maximum that a taxpayer may participate in the Program to 15 years.
- Allows a taxpayer to participate in the Program through multiple agreements and with more than one qualified beginning farmer.
- Allows agreements to be renewed more than once.
- Changes a current $50,000 per year limit on the annual amount of tax credits a single taxpayer may earn to a $50,000 per year, per agreement limit.

Assumptions/Fiscal Impact (Division XX)
Although the Beginning Farmer Tax Credit Program has an annual cap of $12.0 million, the Program does not have sufficient demand under current law to fully utilize that cap. Utilization over the past three years has averaged $6.3 million, and the highest recent utilization was CY 2020 at $6.5 million. Therefore, it is assumed that under current law the tax credit award demand for future years will equal $6.5 million per year.

The changes provided in the Bill remove participation restrictions and expand the types of agricultural assets that may be the subject of agreements. It is assumed for this projection that the Program expansions will increase awards by $2.5 million, to a total of $9.0 million per calendar year.

The credits are not refundable or transferable, but unused credits may be carried forward for up to 10 tax years. For reasons particular to each taxpayer, some earned tax credits are never redeemed on a tax return. Based on the history of tax credit redemptions under this Program, the following tax credit redemption pattern is assumed:

- Year of award = 0.0%
- First tax year after award = 28.0%
- Second tax year = 15.0%
- Third through sixth tax year = 7.0%
- Tax credits that expire unused = 29.0%

This Division of the Bill takes effect January 1, 2022

Expanding the Beginning Farmer Tax Credit program is projected to reduce General Fund revenue by the following amounts:
- FY 2023 = $0.7 million
- FY 2024 = $1.1 million
- FY 2025 = $1.3 million
- FY 2026 = $1.4 million
- FY 2027 = $1.6 million
- FY 2028 and after = $1.8 million

Division XXI — Mental Health and Disability Services (MHDS) Funding

Description and Background

The Bill changes the way MHDS are funded, from a system based on county property taxes to a 100.0% State-funded system. This Division of the Bill is effective upon enactment.

The current MHDS system is a regional system managed by the counties, with State oversight. Counties finance a portion of the system with a county property tax levy that is capped at a per capita dollar amount for each of the 14 MHDS Regions, totaling $116.8 million for FY 2021. The State finances the majority of the services provided through the Medicaid Program. For a complete funding history of the MHDS system back to 1995, please see the related ***Issue Review***.

MHDS Levy. The Bill eliminates the MHDS property tax levy over a two-year period, with all county levies reduced to no more than $21.14 per capita for FY 2022 and reduced to $0 beginning in FY 2023.

Per Capita State Appropriations. The Bill creates a new Mental Health and Disability Services Regional Services Fund and establishes a General Fund standing appropriation to the Department of Human Services (DHS) for distribution to the MHDS Regions performance-based contracts and the following per capita amounts:
- $15.86 for FY 2022.
- $38.00 for FY 2023.
- $40.00 for FY 2024.
- $42.00 for FY 2025.
- Beginning in FY 2026 and beyond, the previous year's appropriation is multiplied by a growth factor indexed to sales tax growth for the preceding fiscal year, not to exceed 1.5%.

Fund Balances. The Bill amends provisions related to county fund balances by requiring all county fund balances to be pooled by the MHDS Region. Regional fund balances are limited to 40.0% of the preceding fiscal year's actual expenditures beginning in FY 2022. In FY 2023, fund balances are limited to 20.0%, and in FY 2024 and beyond, fund balances are limited to 5.0%.

Beginning in FY 2022, State per capita appropriations to an MHDS Region are reduced if the MHDS Region has a fund balance in excess of the fund balance cap specified above. The reduction does not begin until the second half of the year once fund balances are certified on December 1. The MHDS Regions are also required to pay back any funds received in the first two quarters of the fiscal year if fund balances exceeded the cap. Any funds that are paid back or withheld are distributed to the MHDS Regional Incentive Fund.

MHDS Regional Incentive Fund. The Bill creates a new MHDS Regional Incentive Fund to provide additional funding to the MHDS Regions and specifies the criteria in which an MHDS Region may apply for funding.

The Bill makes a General Fund appropriation of $10.0 million to the MHDS Regional Incentive Fund for FY 2022 and $5.2 million for FY 2023. Beginning in FY 2026, any funds in the Fund will be multiplied by a growth factor, not to exceed 3.5% in a fiscal year, equal to the sales tax growth rate for the preceding fiscal year, minus 1.5%. The DHS will make its final decisions on or before December 15 of each year regarding acceptance or rejection of the submissions for incentive funds applications.

To receive funding from the MHDS Regional Incentive Fund, a Regional Administrator must demonstrate that the Region has met the standards outlined in the Region's performance-based contract and have fund balances under the thresholds listed above.

The DHS is required to review all MHDS Regional Incentive Fund expenditures and if the Regional need was less than the Funds provided, the Regions are required to repay the difference back to the Fund.

Polk County. The Bill allows for the transfer of both funds and in-kind services from Broadlawns Hospital to Polk County MHDS for fiscal years 2021 through 2024.

Assumptions/Fiscal Impact (Division XXI)

- The FY 2022 MHDS levy will be reduced to $66.7 million in FY 2022 and $0 in FY 2023.
- Based on population trends from 2015 through 2019, population increases are estimated to be 0.3% in 2020 through 2025.
- The MHDS per capita growth rate appropriation is estimated to be 1.5% for FY 2026 through FY 2028.
- It is not possible to estimate funds available in the MHDS Regional Incentive Fund beyond what is appropriated by the State in FY 2022 and FY 2023 due to the uncertainty of future county fund balances and amounts counties will be required to send back to the Fund.

Division XXII — Property Tax Replacement Payments

Description and Background

2013 Iowa Acts, chapter 123 (State and Local Taxation), established a set commercial and industrial taxable value rollback of 90.0000%, a reduction from the 100.000% rollback usually experienced by those property classes. The 2013 Act also established a standing appropriation designed to reimburse local governments for the property tax revenue loss that results from the taxable value reduction. Iowa Code section 441.21A established the standing appropriation for the reimbursement to local governments (backfill) and limits the total amount of the annual appropriation, beginning with FY 2017, to no more than the amount of the appropriation for FY 2016. Since FY 2017, the annual backfill appropriation has been limited to $152.1 million.

The revenue that local governments receive from the State for the backfill is treated like property tax revenue for local government finance purposes.

The Bill provides that beginning with the FY 2023 payment, the General Fund standing appropriation for commercial and industrial property tax replacement for cities and counties will be phased out in four or seven years, depending on how the tax base of the city or county grew relative to the rest of the State since FY 2014. Cities and counties where the tax base grew at a faster rate than the statewide average from FY 2014 through FY 2021 will have the backfill phased out over a four-year period from FY 2023 to FY 2026, while those that grew at a rate less than the statewide average will have the backfill phased out over a seven-year period from FY 2023 to FY 2029. School district backfill payments will be eliminated after FY 2022. Taxing authorities that are not schools, cities, or counties will have their backfill payment phased out over seven years.

After the change, the reimbursement amount received by each taxing authority that is not a school district will be a percentage of the reimbursement the taxing authority received in FY 2022, with the percentage decreasing until phased out completely for the taxing authority by either FY 2026 or FY 2029.

Assumptions/Fiscal Impact (Division XXII)

The Department of Management (DOM) estimated the impact of the changes to the commercial and industrial property tax replacement backfill using actual taxable amounts by taxing authority for FY 2014 and FY 2021, along with actual backfill amounts received for FY 2021. **Figure 5** provides the estimated backfill amounts by local government type under current law and under the proposed change as estimated by the DOM. The final line in the table represents both the reduction in local government revenue and the reduction in the State General Fund appropriation for commercial and industrial property tax reimbursement backfill.

Figure 5

Estimated Change to the General Fund Appropriation for Commercial and Industrial Property Tax Replacement

In Millions

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Schools								
Current Law	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7
Proposal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7
Cities								
Current Law	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4
Proposal	44.6	36.7	28.7	20.8	12.9	8.6	4.3	0.0
Change	$ -7.8	$ -15.7	$ -23.7	$ -31.6	$ -39.5	$ -43.8	$ -48.1	$ -52.4
Counties								
Current Law	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6
Proposal	24.8	20.0	15.2	10.3	5.5	3.7	1.8	0.0
Change	$ -4.8	$ -9.6	$ -14.4	$ -19.3	$ -24.1	$ -25.9	$ -27.8	$ -29.6
Other Local Governments								
Current Law	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4
Proposal	9.1	7.8	6.5	5.2	3.9	2.6	1.3	0.0
Change	$ -1.3	$ -2.6	$ -3.9	$ -5.2	$ -6.5	$ -7.8	$ -9.1	$ -10.4
Total								
Current Law	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1
Proposal	78.5	64.5	50.4	36.3	22.3	14.9	7.4	0.0
Change	$ -73.6	$ -87.6	$ -101.7	$ -115.8	$ -129.8	$ -137.2	$ -144.7	$ -152.1

The revenue reduction for individual school district levies, totaling $59.7 million per year starting FY 2023, is estimated to be:

- General fund levy = $-41.8 million
- Instructional support levy = $-3.6 million
- Management levy = $-4.0 million
- Amana library levy = $-0.0 million
- Voted Physical Plant and Equipment Levy (PPEL) = $-3.8 million
- Regular PPEL = $-1.3 million
- Public Education and Recreation Levy (PERL) = $-0.1 million
- Debt service levy = $-5.0 million

Division XXIII — School Foundation Percentage

Description

Beginning in FY 2023, the school foundation aid level increases from 87.5% to 88.4% to offset the revenue from the elimination of the commercial and industrial property tax replacement backfill payments. Since FY 1997, the regular program foundation level has been set at 87.5% of the State cost per pupil and is comprised of a uniform levy of $5.40 per $1,000 of taxable valuation statewide and State aid from the General Fund.

Assumptions/Fiscal Impact (Division XXIII)

- Beginning in FY 2023, the regular program foundation level used for calculating State aid for school districts is increasing from 87.5% to 88.4%. This will increase the amount of State aid going to the foundation level and decrease the additional General Fund levy.
- Under current law, the State cost per pupil for FY 2023 and future fiscal years will remain at $7,227.
- The foundation level will increase from $6,324 per pupil in FY 2022 to $6,389 per pupil in FY 2023.
- The Property Tax Replacement Payment (PTRP) will remain at $153 per pupil.

Division XXIV — Public Education and Recreational Tax Levy

Description and Background

The Bill discontinues authorization to levy for the Public Education and Recreation Levy (PERL) Fund, repeals the associated levy, and makes conforming changes. The Bill also specifies that the moneys available in the PERL Fund at the end of FY 2024 are to be spent by schools for purposes previously authorized under law. The PERL is a voter-approved levy of up to $0.135 per $1,000 of taxable valuation used to establish and maintain public recreation places and playgrounds in the public school buildings and grounds of a school district.

Assumptions/Fiscal Impact (Division XXIV)

- Under the provisions of Division XXII of this Bill, school districts' State revenue from the commercial and industrial property tax replacement backfill payments for the PERL will cease beginning FY 2023.
- For FY 2024, 27 school districts will levy property taxes for the PERL at half their previous levy rate, reducing 27 school districts' PERL levy to $0.0675 per $1,000 of taxable valuation.
- Starting in FY 2025, property tax rates for 27 school districts will be reduced by $0.135 per $1,000 of taxable valuation.

Division XXV — Elderly Property Tax Credit

Description

The Bill expands the existing Homestead Property Tax Credit for Elderly and Disabled to create a homestead adjustment property tax credit to offset increases in property tax levies of homesteads owned by persons who are at least 70 years of age and whose annual household income is not more than 250.0% of federal poverty guidelines published by the U.S. Department of Health and Human Services. The Bill would apply to claims filed on or after January 1, 2022, for assessment years beginning on or after January 1, 2021. The Bill exempts the credit expansion from the provisions of Iowa Code section 25B.7(1) (State requirement to fully fund changes to property tax credits).

Assumptions/Fiscal Impact (Division XXV)

- The average assessed value of an eligible homestead is assumed to be $127,500 for AY 2020/FY 2022, and the average is assumed to increase 2.0% per year.
- The FY 2020 residential rollback is 56.4094%, and this rollback percentage is used for all projection years.
- The statewide average residential property tax rate for FY 2021 is $34.44 per $1,000 of taxed value, and this rate is used for all projection years.
- The combination of the first three assumptions results in a projected property tax increase of about $50 per year for the average eligible homestead.
- The Department of Revenue estimates that the number of homesteads owned by persons aged 70 or over with household income of less than 250.0% of the federal poverty level is 106,220 for FY 2022. The LSA estimates that 95.0% of eligible homestead owners will apply for the property tax credit. The LSA further estimates that a number equal to 2.7% of the FY 2022 estimate of 106,220 (2,868) claims will be received each year from homestead owners turning 70 years of age that year.
- The current elderly property tax credit component has a cost to the State of approximately $4.7 million per year. This estimate assumes that amount will remain constant in future years, and further assumes that 85.0% of the credit calculation for the proposed expansion represents homestead owners who are eligible under current law ($4.0 million of the $4.7 million).
- Since the Bill makes the expansion of the property tax credit not subject to the requirement that the State fully fund new or expanded property tax credits (Iowa Code section 25B.7(1)), the entire property tax decrease will result in reduced local government property tax revenue. The combination of the above assumptions results in the following local government property tax revenue reductions for the first seven years of the new credit:
  - FY 2023 = $1.1 million
  - FY 2024 = $6.2 million
  - FY 2025 = $11.8 million
  - FY 2026 = $17.5 million
  - FY 2027 = $23.5 million
  - FY 2028 = $29.7 million
  - FY 2029 = $36.2 million
- The local government revenue reduction is projected to continue to increase until the Iowa population of homeowners aged 70 and over begins to decrease.

Division XXVI — Transit Hotel Motel Tax Funding

Description and Background

The Bill creates a local option transit hotel and motel tax that may be imposed by a city or a Regional Transit District. The tax may be imposed through an election, and the maximum tax rate allowed is 5.0%. In instances where a property tax levy is currently imposed to fund public transit, the revenue raised by the local option tax is to be used to replace property tax revenue and reduce the existing property tax transit rate.

There is currently one Regional Transit Authority District in Iowa and a property tax levy is imposed in varying rates within 12 cities and a portion of the unincorporated area of Polk County. For FY 2021, the levies raised $22.5 million for public transit. For areas within a Tax Increment Financing (TIF) increment, the levies raised an additional $2.6 million that was diverted to finance TIF debt. Across all property subject to the transit levy, the average FY 2021 transit property tax rate was $0.77 per $1,000 of taxed value. The taxes paid equaled 1.9% of total property tax paid on property subject to the transit levies.

The 12 cities and the unincorporated areas of Polk County all currently impose a local option hotel and motel tax at a rate of 7.0%, and the same transaction is also subject to a 5.0% State sales tax rate. As a group, these local governments raised $18.2 million in FY 2019 in hotel and motel tax revenue.

Assumption/Fiscal Impact (Division XXVI)

If all areas were to impose a local option transit hotel and motel tax, the combined tax rate would be 17.0% and the amount raised for local transit would be approximately $13.0 million, enough to supplant roughly 60.0% of the property tax funding for public transit. If a tax were initiated by vote in all localities currently subject to the transit levies at a rate of 5.0%, the Bill would:

- Raise annual local option hotel and motel tax revenue by up to $13.0 million.
- Reduce annual Regional Transit Authority District property tax revenue by $13.0 million.
- Reduce annual TIF revenue by $1.6 million.

Division XXVI has no direct fiscal impact as it requires an affirmative local vote before the new tax could be implemented.

Summary of Fiscal Impact — State General Fund Revenue

Figure 6 provides a summary of the projected changes in General Fund revenue by Bill provision. Please note that the amounts listed for Division I (triggers removed) only reflect the revenue reduction associated with moving the implementation of the contingent individual income tax system forward one tax year, to tax year 2023. Under current law, the contingent system is assumed to become effective starting tax year 2024.

Figure 6

Projected General Fund Revenue Changes by Provision
In Millions

Division	Provision	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Div. I	Triggers Removed	$ 0.0	$ 0.0	$ -154.6	$ -180.1	$ -30.1	$ -8.4	$ -8.4
Div. II	Child Tax Credits	-0.6	-6.4	-4.2	-4.5	-4.9	-5.1	-5.1
Div. III	COVID-19 Grant Exempt.	-9.2	-1.0	0.0	0.0	0.0	0.0	0.0
Div. IV	Paycheck Protection	-4.7	-0.6	0.0	0.0	0.0	0.0	0.0
Div.V	Cap. Gains Install. Sales	0.0	0.0	-5.0	-11.1	-11.1	-11.1	-11.1
Div. VI	Inheritance Tax	-0.7	-23.3	-51.1	-78.3	-98.8	-105.6	-109.7
Div. VII	Housing Trust Fund	0.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Div. IX	Business/Innovation Fund	0.0	-2.0	-3.0	-3.0	-3.0	-3.0	-3.0
Div. XV	Workforce Housing	0.0	-5.3	-9.0	-8.7	-6.4	-5.2	-5.1
Div. XVI	Redevelopment Credit	0.0	-0.9	-3.4	-6.8	-10.0	-13.0	-16.0
Div. XIX	Bonus Depreciation	0.0	-28.9	-20.9	-14.8	-7.7	-2.0	9.0
Div. XIX	Interest Deduction	0.0	3.8	5.8	10.3	12.6	14.2	16.3
Div. XX	Beginning Farmer Tax Credit	0.0	0.0	-0.7	-1.1	-1.3	-1.4	-1.6
	Total	$ -15.2	$ -68.6	$ -250.1	$ -302.1	$ -164.7	$ -144.6	$ -138.7

Fiscal Impact — State General Fund Appropriations

The Divisions of the Bill that will result in changes to projected State General Fund appropriation amounts, when compared to estimates for current law, are shown in **Figure 7**.

Figure 7

Projected General Fund Appropriations Increases (Decreases)
In Millions

Division	Provision	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Div. XXI	MHDS Per Capita	$ 50.0	$ 120.3	$ 126.9	$ 133.7	$ 136.0	$ 138.4	$ 140.9	$ 143.4	$ 145.9
Div. XXI	MHDS Incentive	10.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Div. XXII	PTR Nonschools	0.0	-13.9	-27.9	-42.0	-56.1	-70.1	-77.5	-85.0	-92.4
Div. XXII	PTR Schools	0.0	-59.7	-59.7	-59.7	-59.7	-59.7	-59.7	-59.7	-59.7
Div. XXIII	School Aid	0.0	65.4	60.2	60.3	60.0	59.7	59.4	59.1	58.8
	Total	$ 60.0	$ 117.2	$ 99.5	$ 92.3	$ 80.2	$ 68.3	$ 63.1	$ 57.8	$ 52.6

PTR = Property Tax Replacement

Summary of Fiscal Impact — Local Government Revenue

Iowa allows school districts to establish a local option income surtax for schools. The surtax is calculated as a percent of individual income tax liability, prior to any adjustment for refundable tax credits. The provisions of this Bill that alter income subject to individual income tax, or alter nonrefundable income tax credits, also impact the calculation of the surtax. The statewide average surtax rate is approximately 3.0% of tax liability. Most of the provisions of the Bill lower individual income tax liability, so most of the provisions also reduce the statewide yield realized through the local option income surtax for schools.

Division XXII of the Bill phases out the State payment to local governments for reimbursement of a portion of the property tax reduction associated with the implementation of a taxable value rollback to 90.0000% for commercial, industrial, and railroad property. That reimbursement currently totals $152.1 million per year and is funded by a standing limited appropriation from the State General Fund. While the Bill makes new adjustments to State school funding in order to ameliorate the revenue reduction for local schools, the Bill does not provide for any form of replacement funding for the other levels of local government (cities, counties, community colleges, etc.).

Division XXV of the Bill expands the existing Homestead Property Tax Credit for Elderly and Disabled. The Division also makes inactive an Iowa Code provision that would require the State to fund the revenue reduction that will result from the property tax reduction. The local government revenue reduction (schools, cities, counties, community colleges, etc.) is projected to reach $36.2 million by FY 2029 and continue to increase in the future.

The local government revenue reductions associated with the combination of Divisions XXII and XXV are projected to total $74.7 million for FY 2023 and grow to approximately $194.0 million by FY 2030. In order to adjust annual budgets to compensate for the revenue reduction, the impacted local governments will need to set property tax rates that are higher than would otherwise be the case, increase revenue from other sources (fees, fines, or local option taxes for example), and/or reduce expenditures below the level that would otherwise be supported.

Summary of Fiscal Impact — Estimated Property Tax Reduction for Property Taxpayers

Four Divisions of the Bill are projected to reduce property taxes owed by property taxpayers, when compared to estimates for current law, are shown in **Figure 8**.

Figure 8

Estimated Property Tax Reductions by Division
In Millions

Division	Provision	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Div. XXI	MHDS Levy *	$ -50.0	$ -117.0	$ -117.2	$ -117.4	$ -117.6
Div. XXIII	School District General Fund	0.0	-19.3	-23.0	-23.1	-22.8
Div. XXIV	PERL	0.0	0.0	-2.0	-4.1	-4.2
Div. XXV	Elderly Prop. Tax Credit	0.0	-1.1	-6.2	-11.8	-17.5
	Total	$ -50.0	$ -137.4	$ -148.4	$ -156.4	$ -162.1

* Reduction estimate is compared to the maximum allowable levy and is more than what counties actually levied in FY 2021.

Sources

Department of Revenue
Economic Development Authority
Department of Education
Department of Management
Legislative Services Agency analysis
Wellmark

/s/ Holly M. Lyons

May 13, 2021

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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.