Fiscal Note

Fiscal Services Division

HF 2552 – Department of Revenue Omnibus (LSB5321HV.1)
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Fiscal Note Version – Final Action

Description

House File 2552 relates to tax and administrative procedures of the Department of Revenue (Department).

Background — Divisions with No Projected Fiscal Impact

The following divisions of the Bill have been determined to have no identifiable fiscal impact:

- **Division I** — Retention of records determined to be useless.
- **Divisions II and III** — Electronic return filing requirements for a fiduciary, partnership, pass-through entity, corporation, S corporation, financial institution, or credit union.
- **Division IV** — Department authority to charge a fee for a copy of a return.
- **Division V** — Authority of others to act on behalf of a taxpayer.
- **Division VI** — Electronic communication between the Department and taxpayers.
- **Division VII** — Failure to furnish required income statements to the Department.
- **Division VIII** — Remittance of the real estate transfer tax to the Department instead of the Treasurer of State.
- **Division IX** — Property tax board of review eligibility.
- **Division X** — Appeals of equalization adjustments.
- **Division XII** — Wage assignment notice.
- **Division XIV** — Pass-through entity nonrefundable tax credits.
- **Division XVI** — Interest rate publication.
- **Division XVIII** — Due dates.
- **Division XIX** — Aviation and marine fuel tax refunds.
- **Division XX** — Delayed due date for report of proposed Iowa Code changes related to the 2021 repeal of the inheritance tax.

Background — Divisions with Minor Projected Fiscal Impacts

The following divisions of the Bill have minor projected fiscal impacts:

- **Division XIII** — Out-of-state reciprocal collections. The Division expands the types of debt that the Department may attempt to collect through reciprocal agreements with other states. The expansion is expected to have a small positive impact on the amount of debt collected through these types of agreements.
- **Division XV** — Inheritance tax owed by unknown heirs. Under current law, if an heir entitled to an estate interest cannot be found, a tax of 5.0% is paid through the estate. If the heir is found at a later date, the correct amount of inheritance tax is recomputed and the tax amount is adjusted. The Bill reduces the inheritance tax on an unknown heir on the same percentage basis the inheritance tax is being reduced under the provisions of Division V of SF 619 (2021 Taxation and Other Provisions Act). The change is effective retroactively to January 1, 2021, and is projected to have a minor annual negative impact on General Fund revenue until the inheritance tax is repealed (deaths occurring on or after January 1, 2025).
- **Division XVII** — Property Assessment Appeals Board salary range increase. The Bill changes the salary range for the three State employee positions that form the Property

Assessment Appeals Board. Under current law, the salary range is $73,250 to $112,070. The Bill establishes the range as "commensurate with the salary of an administrative law judge." The current annual salary of an administrative law judge ranges from $93,974 to $133,786. Therefore, the change would allow the top salary to be $21,716 higher than what is allowed under current law. The potential maximum increase in salary for the three positions combined would be $65,148. Including the employer shares of Iowa Public Employees' Retirement System (IPERS) retirement contributions and Federal Insurance Contribution Act (FICA) tax, the annual additional State cost of the maximum pay increase for all three positions would be $76,000. The positions are paid through the General Fund appropriation to the Department of Revenue.

Background — Division XI — Change to the Business Property Tax Credit

The Bill alters the existing Business Property Tax Credit (BPTC) by changing the credit to an exemption and altering how local governments are reimbursed by the State for the property tax reductions associated with the credit/exemption.

Under current law, real property classified as commercial, industrial, or railroad (C/I/RR) is eligible to receive a tax credit for an initial portion of property value. The BPTC process ensures that a specified amount of each business property's value is taxed in the same manner as a residential property. Property value above the minimum is taxed at 90.0% of its taxable value. The property tax credit is financed by an annual $125.0 million appropriation from the State General Fund. To qualify for the BPTC, an initial application is required. Applications for subsequent years are not required. For calculation of the credit, adjacent parcels with the same or similar ownership and the same or similar use are considered a single property unit with a combined value.

For assessment year 2020 (FY 2022), the initial value to which the BPTC applied equaled $234,663, and a total of 79,822 property units benefited from the credit. Collectively, the total assessed value of all BPTC properties was $50.200 billion. For FY 2022, the statewide total assessed value of C/I/RR property is $56.200 billion, meaning that $6.000 billion (10.6%) of all C/I/RR property did not benefit from the FY 2022 BPTC.

The maximum amount of value that may benefit from the credit (the initial value) has experienced two trends over time:

- Due to Iowa's two-year assessment cycle, the residential rollback tends to oscillate up and down slightly between odd-numbered and even-numbered assessment years. For the calculation of the current credit, this causes the difference between the C/I/RR rollback and the residential rollback to adjust, resulting in the $125.0 million tax credit appropriation covering more initial value in even-numbered years than in odd-numbered years.
- The revaluation of existing C/I/RR properties valued below the initial value, combined with newly constructed C/I/RR properties, causes the $125.0 million appropriation to cover less initial value in one year compared to the value covered two years earlier. In recent years, this trend has caused the initial value to drop about $16,000 every two years.

Assumptions

Current law — The Legislative Services Agency (LSA) utilized claim information from the 79,822 property units that received the BPTC for FY 2022 to project the initial value and tax credits awarded under existing law on a property-by-property basis using the following facts and assumptions:

- Beginning with FY 2024, property that until that fiscal year was classified as telecom property and assessed under Iowa Code chapter 433 will be reclassified and taxed as commercial property and will become eligible for the BPTC. The ***Fiscal Note*** for the Act that enacted this classification change (SF 2388 — 2018 Telecommunications Taxation Act) estimated that the total assessed value of telecom property that would be assessed as commercial property starting in FY 2024 was $304.7 million. This amount is 0.6% of the projected value of C/I/RR property eligible for the BPTC in FY 2024.

- For FY 2024, the $125.0 million in total BPTC claims translates to a tax rate of $2.28 per $1,000 of taxed value for existing C/I/RR BPTC property. For calculating the portion of the BPTC that will be utilized by former telecom property starting with FY 2024, the $304.7 million in assessed telecom value is assumed to benefit at the same rate as existing C/I/RR BPTC claimants. This results in an estimated $0.7 million in BPTC awarded to former telecom property in FY 2024.
- Over the past 10 years, the total assessed value of C/I/RR property has increased an average of 3.4% for even-numbered years and 4.9% for odd-numbered years. Assessment year 2015 (FY 2017) was not included in the average calculation due to changes in property classifications that year. The odd and even growth factors were applied respectively to each property within the database for fiscal years 2023 through 2030, including the aggregated former telecom property.
- For each property benefiting from the BPTC, the actual FY 2022 consolidated property tax rate is assumed to be constant for all future years. For former telecom property, the tax rate is assumed to be $35.13 per $1,000 of taxed value.
- For each year, the C/I/RR rollback, residential rollback, and initial value projections are provided in **Table 1**. Applying the projected calculation factors from **Table 1** to the 79,822 individual properties plus the former telecom value produces a projected tax credit amount for each property for each fiscal year from FY 2024 through FY 2029.

Table 1
Projected Business Property Tax Credit Calculation Factors

Assessment Year	Fiscal Year	Residential Rollback	C/I/RR Rollback	Rollback Differential	Current Law Initial Value
AY 2022	FY 2024	55.4323%	90.0000%	34.5677%	$ 212,928
AY 2023	FY 2025	53.8635%	90.0000%	36.1365%	194,280
AY 2024	FY 2026	55.1592%	90.0000%	34.8408%	201,808
AY 2025	FY 2027	53.5981%	90.0000%	36.4019%	185,099
AY 2026	FY 2028	54.8874%	90.0000%	35.1126%	192,169
AY 2027	FY 2029	53.3340%	90.0000%	36.6660%	177,183

Proposed Law — The LSA utilized the same 79,822 property dataset as current law to project the benefit for each property if the current tax credit was switched to a tax exemption calculation based on $150,000 of initial value. The same tax rate, assessed value growth, and additional telecom property assumptions as current law were used for the proposed law comparison. In addition, the projection was adjusted to account for the 10.6% ($6.000 billion) of existing C/I/RR property value that does not currently benefit from the BPTC. These additional C/I/RR properties will automatically be included in the proposed partial tax exemption and State General Fund reimbursement to local governments. Like the addition of telecom property under current law, the properties that are not currently benefiting from the BPTC are assumed to be similar in value and tax rate to those that are now benefiting from the BPTC.

Combining the rollback differential shown in **Table 1** with the projected assessed values for every property, including adjustments for former telecom property and property that is currently not part of the BPTC claim dataset, and utilizing the proposed $150,000 constant initial value as provided in the Bill produces a projected tax exemption benefit amount for each property for each fiscal year from FY 2024 through FY 2029.

Current Law Compared to Proposed Law — The current BPTC taxes a portion of a business property's assessed value like it was residential value. This is accomplished by having the State General Fund pay a portion of the property taxes due on a BPTC property. The proposal accomplishes the same thing by exempting a portion of a business property's value from property taxation, then reimbursing the local government property tax system for up to $125.0 million of the resulting tax reduction.

The biggest difference between current law and the Bill is the level of the initial value. Current law taxes more than $200,000 of a property's assessed value at the lower residential rollback, while the proposal applies the reduction to a fixed $150,000. This difference means:

- Taxpayers with properties assessed at $150,000 or less will receive the same benefit under the Bill as they do under current law.
- Existing BPTC properties and former telecom properties with an assessed value above $150,000 will see a property tax increase under the Bill, and that increase, when compared to current law, is projected to remain until at least FY 2030.
- Owners of C/I/RR properties that are not currently receiving the benefit of the BPTC will see a property tax reduction under the Bill.
- The $125.0 million standing General Fund appropriation for local government reimbursement exceeds the projected level of claims for FY 2024 through FY 2029. Proration of local government reimbursement claims is projected to start with FY 2030.

Fiscal Impact

The Bill eliminates an existing $125.0 million standing General Fund appropriation that finances the BPTC and replaces it with a standing General Fund appropriation of up to $125.0 million to be used to reimburse local governments for the tax reduction associated with the property tax exemption that replaces the BPTC. Through FY 2029, the full $125.0 million would not be needed as the property tax increases for BPTC properties with assessed values in excess of $150,000 are projected to be larger than the property tax decreases realized by properties that will benefit from the new exemption but did not benefit from the BPTC. In addition, the Bill requires that the balance in the BPTC Fund revert to the State General Fund once the BPTC is eliminated. The balance is projected to be $2.3 million. The final column of **Table 2** shows the Bill's projected reduction in annual appropriations from the State General Fund.

Table 2
State General Fund Appropriation Projections
In Millions

Fiscal Year	Eliminate Existing Tax Credit	New Local Government Reimbursement	BPTC Fund Reversion	Net Change in General Fund Appropriation Level
FY 2024	$ -125.0	$ 112.1	$ -2.3	$ -15.2
FY 2025	-125.0	118.7		-6.3
FY 2026	-125.0	115.7		-9.3
FY 2027	-125.0	122.3		-2.7
FY 2028	-125.0	118.7		-6.3
FY 2029	-125.0	124.7		-0.3

Through FY 2029, the General Fund appropriation is not projected to be prorated as the reimbursement claims are expected to be less than $125.0 million. Proration of the reimbursement claims, projected to start with FY 2030, would result in a negative impact on local government revenue when compared to the existing BPTC process.

Sources

Department of Management property value and rate files
Legislative Services Agency analysis
Department of Revenue

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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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