



SF 181 – Residential Assessment Limitations (LSB1566SV.1)
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Fiscal Note Version – Final Action

Description

Senate File 181 relates to property taxes and income taxes. **Division I** relates to the calculation of the assessment limitation (rollback) for residential property. The Division specifies that property that was classified as multiresidential property (apartments, nursing homes, mobile home parks, etc.) prior to January 1, 2022, and that has been included within the residential property classification on and after January 1, 2022, shall not be considered in the calculation that determines the residential rollback for assessment year 2022 and after.

Division I also delays local government budget process timelines to allow local governments time to adjust proposed FY 2024 budgets.

The Bill also makes two technical changes related to income taxes:

- **Division II** specifies that for the purposes of the **Employer Child Care Tax Credit**, the amount of qualified employer expenditures related to child care that may be used in calculating the tax credit is limited so as to include only qualified expenditures made in Iowa. The change is effective upon enactment and applies retroactively to the date of initial availability of the tax credit (January 1, 2023).
- **Division III** relates to income tax withholding on pension income. Beginning January 1, 2023, most pension and other retirement income received by Iowa taxpayers is exempt from Iowa income tax. The Bill specifies that income tax withholding is only required if the pension or other retirement income is subject to Iowa income tax.

Background

Rollback — The growth in the aggregate taxable value of all Iowa residential property,¹ due to the revaluation of property that existed in the previous assessment year, is restricted by Iowa law to no more than 3.0% per year. To limit annual residential taxable value growth to no more than 3.0%, the Department of Revenue (Department) each year calculates a percentage that is referred to as a rollback. In simplest form, the residential rollback for an assessment year is calculated by dividing the allowed aggregate taxable value of all residential property in Iowa as restricted by the 3.0% growth limit by the total aggregate actual value (as determined by the assessor) of the same properties. For any given property's actual value, a higher rollback percentage will result in a higher taxable value.

An example rollback of 55.1234% means that 55.1234% of the actual value of a property is subject to taxation by relevant local governments, so a property with an actual value of \$1,000,000 would have a taxable value of \$551,234. In recent years, the rollback percentage for residential property has fluctuated between 54.1302% and 56.9391%.

School Finance — Iowa school funding (for kindergarten through grade 12) is funded primarily through a combination of property tax revenue and financial aid provided by the State through

¹ Rollbacks are also computed separately for other classes of property.

the [school aid formula](#). As part of the formula, all taxed property value within the State is subject to a school finance basic tax levy equal to \$5.40 per \$1,000 of taxed value. All else being equal within the formula, additional taxed value increases the property tax portion and reduces the State aid portion of school finance by the amount raised by the \$5.40 basic levy.

Division I relates to the residential rollback calculation. 2013 Iowa Acts, chapter [123](#) (Taxation of Property and Income Act), created a new property classification called multiresidential. That new classification encompassed properties that were used for human habitation but did not qualify under the definition of residential property. In addition to establishing the new property classification, the Act also initiated a process whereby properties within the multiresidential classification would benefit from a declining rollback percentage through assessment year (AY) 2021, after which the classification would be assigned the calculated residential rollback each year.

The multiresidential provisions of the 2013 Act were amended in 2021 Iowa Acts, chapter [20](#) (Taxation of Property Act), by eliminating the separate property classification of multiresidential property and folding the properties from the previous multiresidential classification into the residential classification, with the class combination first occurring with AY 2022.

When implemented through an annual [order](#) by the Department in October 2022, the combination of the previously separate property classes within the residential rollback calculation resulted in an AY 2022 residential rollback percentage that was higher than would have been the case had the 2021 legislation not been enacted. The Department calculated that the AY 2022 residential rollback with the multiresidential and residential property classes combined within the calculation equals 56.4919%. The LSA has determined, and the Department has confirmed, that had the two classes remained separate, the residential and multiresidential rollback percentages for AY 2022 would equal 54.6501%. The difference means that for a residential property with an actual value of \$200,000, the taxable value would be \$3,684 higher than without the implementation of the 2021 Act. For a \$500,000 multiresidential property, the increase in taxable value calculates to \$9,209. The unintended increase also applies to all future assessment years.

Assumptions

Division I, Residential Rollback Calculation:

- AY 2022 assessments apply to property taxes due in the fall of 2023 and the spring of 2024 (FY 2024).
- For AY 2022, the aggregate actual value of all residential and multiresidential property in Iowa totals \$214.905 billion. At a rollback of 56.4919%, the aggregate taxable value of residential property equals \$121.404 billion, while at a rollback of 54.6501%, the total would be \$117.446 billion.
- The difference between the two rollback calculations results in an increase in taxable value statewide of \$3.958 billion and that amount of taxable value subject to the school finance \$5.40 levy would result in a \$21.4 million increase in property taxes paid by residential and multiresidential property owners and a \$21.4 million reduction in State aid to schools. Due to the nature of the rollback calculation, the shift to property tax from State school aid is annual and permanent.
- For calculating the potential maximum property tax increase associated with the 2021 Act, the FY 2023 average residential property tax rate of \$33.65 per \$1,000 of taxed value, minus the \$5.40 basic levy is used (\$28.25).
- Iowa property tax law provides that every commercial, industrial, or railroad property unit benefits from the residential rollback on the first \$150,000 of property value. The implementation of the 2021 Act also caused an increase in the taxable value of properties within those three classes. The annual aggregate impact on the three classes is projected

to be much smaller in aggregate than the impact on residential and multiresidential properties. Due to data source limitations, the actual impact on those classes cannot be estimated at this time.

Division II (Employer Child Tax Credit) and **Division III** (Pension and Other Retirement Withholding) are technical and clarifying changes that do not impact the underlying fiscal impact implications of the original enacting legislation.

Fiscal Impact

The implementation of 2021 property tax legislation inadvertently increased the contribution of property tax to Iowa school finance by an estimated \$21.4 million per year, beginning with FY 2024, and decreased the State aid appropriation by the same annual amount. The provisions of **Division I** of this Bill related to the calculation of the residential rollback will reverse the 2021 legislation’s fiscal impact on property taxpayers and the State school aid appropriation.

Beyond the school basic levy impact, the 2021 legislation also likely increased the taxes owed for FY 2024 and after by residential and multiresidential taxpayers through an increase in the taxable value of their properties above what would have been the case without the legislation. The impact on those two classes of properties is a projected maximum annual property tax increase of \$111.8 million each year (excludes the \$5.40 impact discussed above). The actual property tax increase will be lower than this maximum, since the extra taxable value will in some cases result in lower property tax rates. This Bill will also eliminate this additional potential increase in property taxes due to the 2021 Act.

Sources

Department of Management property tax value and tax rate files
Department of Revenue rollback calculations
Legislative Services Agency analysis
Iowa League of Cities

/s/ Jennifer Acton

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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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