



Fiscal Note

Fiscal Services Division



[HF 2774](#) – Sales Tax Exemptions, Water Trails (LSB6945HV)
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Fiscal Note Version – New

Description

[House File 2774](#) creates a sales and use tax exemption and refund for the construction of a regional water trail system by certain nonprofit organizations. The Bill also allows written contracts with a designated exempt entity to qualify for a sales and use tax exemption if the construction project becomes the property of another designated exempt entity.

The Bill takes effect upon enactment and applies retroactively to January 1, 2025.

Background

Designated exempt entities may apply to the Iowa Department of Revenue (IDR) for a refund of the sales and use tax paid for building materials, supplies, equipment, and services furnished by a contractor in the performance of a written contract.

Under current law, a written construction contract with a designated exempt entity for the construction of a regional water trail system qualifies for a sales and use tax exemption only if the construction project becomes public property or the property of the designated exempt entity included in the contract.

Assumptions

- Transactions eligible for a sales and use tax exemption or refund that occur prior to July 1, 2026, will impact FY 2027. Transactions eligible for a sales and use tax exemption or refund that occur on or after July 1, 2026, will impact the fiscal year in which they occur.
- One regional water trail construction project will qualify for the sales and use tax exemption and refund during the projection period. This project will take place between 2021 and 2028 with a total cost of \$125.0 million.
- Construction costs are distributed equally across each year of a construction project.
- Secure an Advanced Vision for Education (SAVE) refunds are 1.0% of taxable expenditures. Local option sales tax (LOST) distributions are estimated to be 0.95% of taxable expenditures.

Fiscal Impact

House File 2774 is estimated to decrease revenue to the General Fund, the SAVE Fund, and the LOST by the amounts shown in **Figure 1**.

Figure 1 — Fiscal Impact of House File 2774 (in Millions)

	General Fund	SAVE	LOST
FY 2027	\$ -2.0	\$ -0.4	\$ -0.4
FY 2028	-0.8	-0.2	-0.1
FY 2029	-0.4	-0.1	-0.1

Sources

Iowa Department of Revenue
Business Record [article](#)

/s/ Jennifer Acton

April 17, 2026

Doc ID 1604475

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.
