



HF 104 – Geothermal Installation Property Tax Exemption (LSB1665YH)
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Fiscal Note Version – New

Description

- House File 104** relates to property tax and geothermal heating and cooling systems. The Bill:
- Exempts the value added to a property by the installation of a geothermal heating and/or cooling system from property taxation. The new exemption is for property first assessed on or after January 1, 2016, and applies to installations made on or after July 1, 2015.
 - Removes the current 10-year limit on the property tax exemption for residential installations of geothermal heating and/or cooling systems (see Iowa Code section [427.1\(38\)](#)).
 - Makes Iowa Code section 25B.7 (State funding of property tax credits and exemptions) inapplicable to the geothermal property tax credit

Assumptions

- Commercial and industrial installations are projected to equal \$9.5 million in 2015 and grow 1.6% per year.
- Agricultural installations are projected to equal the total for commercial and industrial properties each year.
- The new exemption applies to installations on or after July 1, 2015. The impact for the first assessment year is assumed to be 50.0% of total 2015 installations.
- For computation of the value added, it is assumed that the value added is 20.0% of the installed value of the geothermal system.
- For all years, the rollback is assumed to be 90.0% for commercial and industrial property, 50.0% for agricultural properties, and 58.0% for residential properties.
- For all years, the property tax rate used is \$36.85 per \$1,000 of taxed valuation for commercial and industrial property, \$25.36 for agricultural property, and \$35.14 for residential property.

Fiscal Impact

Creating a new property tax exemption for geothermal heating and/or cooling system installations will increase the standing General Fund appropriation for State school aid and decrease local government revenue. The projected impact is found in the following table.

| Geothermal Installation Property Tax Exemption | | | |
|--|---|---|--|
| | State General Fund Est. Appropriation Increase | Est. Local Government Revenue Decrease | Estimated Total Property Tax Reduction |
| FY 2018 | \$ 7,000 | \$ 36,000 | \$ 43,000 |
| FY 2019 | 22,000 | 110,000 | 132,000 |
| FY 2020 | 37,000 | 185,000 | 222,000 |
| FY 2021 | 52,000 | 261,000 | 313,000 |
| FY 2022 | 67,000 | 339,000 | 406,000 |
| FY 2023 | 82,000 | 417,000 | 499,000 |
| FY 2024 | 98,000 | 497,000 | 595,000 |

In addition, removal of the 10-year limit on the current residential property tax exemption for geothermal systems will also increase the State school aid appropriation \$21,000 and decrease local government revenue \$115,000 in FY 2025, with similar additional impacts each succeeding fiscal year.

Sources

Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

April 7, 2015

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.
