



HF 257 – Small Business Tax Deduction, Wages to Disabled Individuals (LSB1524YH)
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Fiscal Note Version – New

Description

House File 257 amends the criteria for claiming an adjustment for wages paid by taxpayers to qualified individuals with a disability or individuals convicted of a felony and/or on criminal probation.

Under current law, a business that has 20 or fewer full-time equivalent employees and no more than \$3.0 million in annual gross revenues may claim an adjustment equal to 65.0% of wages paid to each qualified individual, up to \$20,000 per person. The adjustment is available for individual income tax, corporate income tax, and franchise (bank) tax. The Bill raises the criteria to businesses having 500 or fewer full-time equivalent employees and no more than \$21.0 million in annual gross revenues.

This change is effective on enactment and applies retroactively to tax year 2015.

Background

The tax year 2012 income adjustment for wages paid to qualified individuals is estimated to total \$2.0 million. The estimated State General Fund revenue reduction for the current law wage adjustment is \$128,000 per year.

Assumptions

- Expanding the wage adjustment allowed under current law to include businesses employing 21 to 500 individuals is projected to increase the wage adjustment claimed by business by 222.1%. The additional wage adjustment (65.0% of wages paid) for wages paid during tax year 2015 is projected to equal (assumed marginal tax rate in parentheses):
 - Banks = \$391,000 (5.0%)
 - C-Corporations = \$1,840,000 (7.1%)
 - Business Pass-Through Entities = \$2,446,000 (6.0%)
- Wages paid are assumed to increase 2.5% per year.
- For banks and C-corporations, the tax reductions are assumed to equal 20.0% the initial fiscal year and 80.0% the second fiscal year (tax year 2015 impacts FY 2015 20.0% and FY 2016 80.0%).
- For pass-through entities impacting individual income taxpayers, the tax reductions are assumed to equal 100.0% the second fiscal year (tax year 2015 impacts FY 2016).

Fiscal Impact

Expanding the current wage adjustment for wages paid to qualified disabled and felon/probation employees is projected to decrease net State General Fund revenue \$0.3 million annually, beginning in FY 2016.

Source

Department of Revenue

/s/ Holly M. Lyons

April 13, 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.
