Fiscal Note

Fiscal Services Division

SF 2325 – Hospital Sales Tax Exemption (LSB6034SV)
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Fiscal Note Version – New

Description

Senate File 2325 updates a sales and use tax exemption for the sale of goods and services made in the fulfillment of a written construction contract for a nonprofit hospital in a county that borders Illinois and has a population that exceeds 150,000. The bill is retroactive to January 1, 2014. However, the retroactive sales and use tax paid is only available as a credit beginning in FY 2018.

Assumptions

- The nonprofit hospital is located in Scott County, Iowa. The local option sales tax (LOST) rate is 1.0%.
- Genesis Medical Center, in Davenport, Iowa, began construction in June 2014 on an estimated $138.5 million construction and renovation project.
- An estimated 48.8% of the construction cost is subject to sales and use tax.
- The project will be completed by December 31, 2017, a total of 43 months.
- Expenditures will be distributed evenly over that time period.
- The enactment date will be June 2016. Sales and use tax paid before June 2016 will result in a credit. Sales and use tax from sales arising from June 2016 through December 31, 2017, will be exempt.
- There is no expiration date on the tax credit and the credit is not refundable. The Credit does not specify if it is applicable to LOST, so it is assumed it is not.
- All purchases of materials and services will take place in Scott County.

Fiscal Impact

The table below presents the estimated General Fund revenue reduction of **SF 2325**.

	General Fund	SAVE	LOST
FY 2016	$ -79,000	$ -16,000	$ -16,000
FY 2017	-948,000	-192,000	-192,000
FY 2018	-474,000	-96,000	-96,000
Credit Redeemable Beginning in FY 2018	-1,896,000	-384,000	0

SAVE = Secure an Advanced Vision for Education

The estimated impact beyond FY 2018 is dependent on the annual sales and use tax liability of Genesis Medical Center and is unknown at this time. The average sales and use tax liability of the top five hospitals in Iowa is $92,000 per year, which means the tax credit could last as long as 25 years. However, since this is an average liability, the redemption could occur faster.

Sources
Department of Revenue
LSA Analysis & Calculations

/s/ Holly M. Lyons

April 21, 2016

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.
