



SF 2388 – Telecommunications Company Property Taxation (LSB5182SV)
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Fiscal Note Version – New

Description

[Senate File 2388](#) changes how telephone and cable company property is valued for property taxation purposes. Under the provisions of the Bill, taxation of telephone and cable company property for property taxation purposes would be restricted to the value of land and buildings. Also, all such property would be assessed at the local level and classified as commercial property. Under current law, the property of telephone companies is assessed by the Iowa Department of Revenue (centrally assessed). The changes are effective beginning assessment year (AY) 2019 (FY 2021).

By repealing Iowa Code chapter [433](#) and removing a corresponding reference in Iowa Code section [427A.1\(1\)\(h\)](#), the Bill also makes available a sales and use tax exemption for machinery, equipment, and computers purchased by telecommunications companies that are centrally assessed under current law.

Assumptions

Current Law Assumptions

- The assessed value of telephone property is \$1,057.3 million in AY 2017 and the value will decrease to \$974.4 million for AY 2019.
- Telephone company property does not benefit from any taxable value rollback.
- The assessed value of cable company property is \$218.3 million for all assessment years.
- Cable company property is classified as commercial and therefore benefits from a taxable value rollback to 90.0%.
- The statewide average property tax rate will be \$33.16 per \$1,000 of taxed value for all years.

Proposed Law Assumptions

- The assessed value of telephone property land and buildings will be \$304.7 million for AY 2019.
- The assessed value of cable company land and buildings will be \$36.9 million for AY 2019.
- Telephone company and cable company property will be classified as commercial and therefore benefit from a taxable value rollback to 90.0%.
- The statewide average property tax rate is \$33.16 per \$1,000 of taxed value for FY 2021.
- Reductions in taxed value that result from law changes increase the State General Fund appropriation to school aid by \$5.40 per \$1,000 of reduced taxed value.
- Telephone company purchases of machinery, equipment, and computers totaling \$20.0 million per year will no longer be subject to sales and use tax under the provisions of the Bill. At the 6.0% sales/use tax rate, this equates to \$1.2 million per calendar year.

- Annual increases and decreases in tax rates and taxed value are minor and, to a large extent, offset. For this reason, the impact on projections for fiscal years after FY 2021 is ignored.

Fiscal and Other Impacts

The tax changes contained in the Bill are projected to reduce telephone and cable company property taxes by \$29.4 million, beginning AY 2019 (taxes due in FY 2021). The State and local revenue and expenditure change impacts are estimated to be:

- A decrease of \$24.6 million in annual local government property tax revenue, beginning FY 2021.
- An increase of \$4.8 million in the annual State General Fund school aid appropriation, beginning FY 2021.
- A decrease in State General Fund sales tax collections, beginning calendar year 2018 (\$0.6 million revenue reduction in FY 2019 and \$1.2 million annual reduction in future fiscal years).

The Bill relieves the Department of Revenue from current staff duties associated with the assessment of telephone company property. The reduction in annual Department expenditures associated with the Bill has not been identified.

The Iowa Constitution limits the total debt of counties and other local governments to no more than 5.0% of the value of property subject to property tax (Article XI). The Bill lowers the statewide total value of property subject to property tax by an estimated \$885.2 million and this amount equates to about a 0.3% reduction in debt-limit value statewide. While this reduction percentage should not cause significant debt limit issues in most situations, the reduction could cause debt limitation issues for individual local governments at or near their current-law limit.

Source

Department of Revenue

/s/ Holly M. Lyons

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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.
