Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 385 - Enterprise Zone Historic Preservation Credits (LSB 1892 SS)
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Fiscal Note Version - New

Description

The Bill allows a tax credit to an eligible housing business under the Enterprise Zone Program to be allocated to a limited partner designated by the limited partnership. The Bill allows a tax credit under a property rehabilitation project certified under Chapter 404A, Code of Iowa, to be claimed by a limited partner designated by the limited partnership.

Background

Under current law, tax credits awarded to partnerships are to be allocated on a pro rata share of earnings. Under the proposed legislation, a limited partner could be allocated the tax credits without partaking in any earnings. In other words, the limited partner would be able to reduce tax liability without generating additional liability.

Assumptions

1. Senate File 385 is similar in some regards to HF 670. House File 670 allows for the sale or transfer of up to $3.0 million in investment tax credits for eligible housing businesses that locate within brownfield or blighted areas within an enterprise zone. A large project in the City of Des Moines would benefit from the sale of these tax credits. This fiscal note assumes that House File 670 will pass and the impact from the Des Moines project will be captured in the fiscal note for HF 670 and not in the fiscal note for SF 385.
2. Award and utilization of historic rehabilitation tax credits would be unaffected by the proposed legislation.
3. Projects involving federal low-income housing tax credits under Section 42 of the Internal Revenue Code would be unaffected by the proposed legislation. Tax credits for projects under Section 42 of the Internal Revenue Code are currently saleable.
4. Current awards (FY 2004) for eligible housing businesses under the Enterprise Zone Program total $9.5 million. This includes $7.8 million in investment tax credits and $2.2 million in sales and use tax rebates. According to the Department of Economic Development, based on analysis of the types and sizes of the applications received during FY 2004 and discussion with developers and their accountants, the legislation would result in a projected increase in total Program usage of 5.0% in year one and 13.0% in year two compared to the FY 2004 level as more people become aware of the change in law.
5. Projects beginning on or after July 1, 2005, will be the first to benefit from the proposed legislation and will result in an increase of 5.0% in Program utilization compared to the FY 2004 level. The first impact of these projects will occur in FY 2006 with an increase of $110,000 in sales and use tax rebates ($2.2 million x .05). The investment tax credit cannot be utilized until the housing units are completed and a certificate of occupancy is issued. This will not occur until FY 2007 and the fiscal impact will be $390,000 ($7.8 million x .05).

6. Projects beginning on or after July 1, 2006, will result in a 13.0% increase in Program utilization compared to the FY 2004 level. The first impact of these projects will occur in FY 2007 with an increase of $286,000 in sales and use tax rebates ($2.2 million x .13). The investment tax credit cannot be utilized until the housing units are completed and a certificate of occupancy is issued. This will not occur until FY 2008 and the fiscal impact will be $1.0 million ($7.8 million x .13).

	FY 06	FY 07	FY 08
Investment Tax Credit Increase	$ 0	$ 390,000	$ 1,000,000
Sales & Use Rebate Tax Increase	110,000	286,000	286,000
Total Fiscal Impact	$ 110,000	$ 676,000	$ 1,286,000

Fiscal Impact

Senate File 385 will reduce General Fund revenues by an estimated $110,000 in FY 2006 and by $676,000 in FY 2007. General Fund revenues will be reduced by $1.3 million annually starting in FY 2008.

Sources

Department of Economic Development
Department of Revenue
Department of Cultural Affairs

March 29, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.