

Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2258 – Pilot Project New Tax Incentive (LSB 5535 XS)

Analyst: Jeff Robinson (Phone: [515] 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version - New

Description

Senate File 2258 allows two cities to qualify as pilot projects for a new tax incentive equal to 3.0% of the wages paid employees in created or retained jobs.

Significant features of the proposal include:

- To qualify for the incentive, businesses must create at least 10 jobs or make a qualifying capital investment of at least \$500,000.
- A currently existing job may be considered a created job if it is determined the business is considering in good faith a relocation to another state. A currently existing job may also be considered a created job if it is part of a significant business expansion.
- Qualifying capital investments include real property, long-term lease payments, and equipment purchases.
- The level of pay for the created jobs must equal at least the “countywide average wage.”
- The business must be located in an Urban Renewal Area (Tax Increment Financing District).
- The initial agreement is limited to a maximum of 10 years, but the agreement may provide for an extension up to an additional 10 years.
- New agreements cannot be created after June 30, 2010.
- The tax incentive is equal to 3.0% of the gross wages paid to an employee holding a created job. The tax incentive is not related to the amount of State income tax actually withheld from the employees.
- Instead of forwarding all of the income tax withheld from its employees, an employer retains an amount equal to 3.0% of gross wages paid to employees in created jobs.
- If the amount of tax withheld from the employees is less than the 3.0% incentive, the employer may retain withholding from employees not included in the new jobs agreement.
- The business forwards the 3.0% incentive to the pilot project city for deposit into the city’s Special Fund created pursuant to Section 403.19(2), Code of Iowa.
- The revenue received by the city shall be used for a project related to the business.
- The two cities that are eligible under the qualification set forth in the Bill are Sioux City and Council Bluffs.

Assumptions

1. The tax incentive agreements will cover 300 jobs in FY 2007 and the number will grow to 1,293 by FY 2010, the last year allowed for new agreements.
2. The average gross wage for jobs subject to the agreements will be \$33,400 in FY 2007 and increase at an annual rate of 3.0%.

3. There will be sufficient tax revenue available at each business to meet the 3.0% tax incentive.

Fiscal Impact

The amounts listed in the "SF 2258 Tax Incentive" column of the following table represent the estimated direct impact on State General Fund revenue.

Estimated Jobs, Wages, and Tax Incentive			
	<u>Jobs</u>	<u>Average Gross Wage</u>	<u>SF 2258 Tax Incentive</u>
FY 2007	300	\$33,400	\$301,000
FY 2008	615	34,402	635,000
FY 2009	946	35,434	1,005,000
FY 2010	1,293	36,497	1,416,000
FY 2011	1,293	37,592	1,458,000
FY 2012	1,293	38,720	1,502,000

The numbers in the table do not include an adjustment for "indirect" impacts on State or local revenue. Both positive and negative indirect impacts are possible. Positive indirect impacts may include employees expending salary dollars within the State and growth in other businesses created and expanded to meet the needs of the new business. Negative indirect impacts may include the effect of the new business on other Iowa businesses when competing for labor, capital, and sales, as well as the additional demand for schools, roads, police and fire protection, and other government services that necessarily result from higher levels of employment and population.

Source

Department of Economic Development

/s/ Holly M. Lyons

March 7, 2006

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.
