

**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

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HF 902 - Conservation Tax Credits (LSB 2290 HV)

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Fiscal Note Version - New

Requested by Representative Paul Shomshor

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**Description**

House File 902 creates an income tax credit for the charitable contribution of real estate to qualified organizations exclusively for conservation purposes. The tax credit is equal to 50.0% of the fair market value of the contribution or \$100,000, whichever is lower. The credit is not refundable, but may be carried forward by the taxpayer for up to twenty years. The Bill is retroactive to January 1, 2007.

**Background**

Under current law, the contribution of real estate to a qualified conservation organization would be eligible for federal and State income tax deductions for the full market value of the contribution. This Bill would make a portion of the value eligible for a State tax credit instead of the State tax deduction. Any remaining value above the credit limit would still be eligible for the State deduction.

Under current law, a donation of a \$50,000 property by a person in the highest State and federal individual income tax brackets to a qualified conservation organization will reduce combined State and federal income taxes by approximately \$19,500 (39.0% of the property value). Under the proposed law, the State/federal income tax reduction would be approximately \$35,000 (70.0% of the property value).

**Assumptions**

- Over the past six years, an average of 24 properties with a total average annual value of \$4.7 million has been donated to the Iowa Natural Heritage Foundation. Of that amount, \$2.2 million would be eligible for the proposed tax credit.
- Property donations to the Iowa Heritage Foundation equal one-half of total donations to all organizations qualified under the Bill.
- The State tax value of the current-law tax exemption to all Iowa taxpayers averages \$132,000 per year.
- The proposed tax incentive will increase real estate contributions to qualified conservation organizations by 40.0%.
- The annual number of properties donated to all qualified organizations will be 34, and the net income tax reduction will be \$1.35 million. This dollar amount is after subtraction of the impact of the current State tax deduction available for donated property.
- For most tax situations, Iowa's top effective income tax rate is 6.03% (8.98% adjusted for the impact of federal deductibility). At that effective rate, each year's assumed 34 donating taxpayers would need \$620,000 each in Iowa taxable income to utilize the entire credit earned.
- On average, the donating taxpayers will need five tax years to fully utilize the tax credits.
- The statewide average rate for the local option income surtax for schools is 3.0% of State income tax liability.

### **Fiscal Impact**

The tax credit created in HF 902 is projected to reduce net General Fund revenue by the following amounts:

FY 2008 - \$0.3 million

FY 2009 - \$0.5 million

FY 2010 - \$0.8 million

FY 2011 - \$1.1 million

FY 2012 and beyond - \$1.4 million

The local option income surtax for schools is based on a percentage of the taxpayer's State tax liability, prior to refundable credits but after adjustment for non-refundable credits. Since this credit is non-refundable, the credit will also reduce the statewide yield of the local option income surtax for schools by an amount equal to 3.0% of the State impact listed above (\$40,000 by FY 2012).

### **Sources**

Iowa Natural Heritage Foundation  
Department of Revenue  
Legislative Services Agency Analysis

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Dennis C Prouty

April 16, 2007

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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.

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