Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 905 - Commercial Property Tax Reform (LSB 2704 YH)
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Fiscal Note Version - New
Requested by Representative Philip L. Wise

Description

House File 905 relates to taxation of commercial property and to local government finance.

Division I – Provides an annual $320 individual or corporate income tax credit for taxpayers owning less than $300,000 in aggregate taxable commercial property statewide. The property for which the credit is claimed must be improved, meaning a structure must be present and the property must be put to productive use. The tax credit is effective income tax years 2007 through 2011.

Division II – Lowers the allowed annual statewide growth in taxable value due to revaluation of existing commercial and industrial property from the current 4.0% to 1.0%. The change is effective assessment year 2007 (FY 2009).

Divisions III & IV – Removes the authority of cities, counties, townships, school districts, and community colleges to levy property taxes, except property taxes to repay debt, beginning FY 2012.

Division V – Increases the maximum allowed hotel and motel local option tax rate from the current 7.0% to 9.0%.

Division VI – Provides that the amount of the State appropriation to the statewide Fire and Police Retirement System shall cover 3.79% of the covered earnable compensation of members. The Division also appropriates $8,541,814 from the State General Fund for this purpose.

Division VII – Establishes a Legislative Property Tax Study Committee to conduct a comprehensive review of property taxation in Iowa. The Division specifies the membership of the Committee and authorizes the Committee to contract with tax consultants and tax experts. A final report to the General Assembly is required by the start of the 2009 General Assembly.

Assumptions

- **Division I** – A total of 78,000 commercial property tax credits will be claimed each year on tax year 2007 through 2011 returns, and the impact will first occur in FY 2008 and will end with FY 2012.
- **Division II** –
    - The following table provides the assumed commercial and industrial rollback percentages for FY 2009 through FY 2012, as well as the rollback percentages assumed if the allowed growth reduction in HF 905 is enacted. The assumed assessed (market) value is also presented, along with the assumed change in taxable value associated with Division II.

Fiscal Year	Commercial Rollback Current Law	Commercial Rollback Proposed Law	Assumed Assessed Value of Commercial Property ($ Billions)	Change in Taxable Value of Commercial Property ($ Billions)	Industrial Rollback Current Law	Industrial Rollback Proposed Law	Assumed Assessed Value of Industrial Property ($ Billions)	Change in Taxable Value of Industrial Property ($ Billions)
FY 2009	98.7%	94.9%	$32.677	$ - 1.240	100.0%	99.1%	$5.201	$ - 0.046
FY 2010	100.0%	94.6%	$33.653	$ - 1.820	100.0%	99.9%	$5.308	$ - 0.005
FY 2011	98.7%	89.7%	$36.461	$ - 3.254	100.0%	99.0%	$5.574	$ - 0.055
FY 2012	100.0%	89.5%	$37.823	$ - 3.980	100.0%	99.8%	$5.759	$ - 0.011

- Impacts on school finance:
  - The General Fund school aid appropriation increases $5.40 for every $1,000 of reduced taxable value.
  - The majority of a school district's budget is set by a formula that provides a maximum level of revenue that may be raised by the school district. Reducing taxable value available to a school district will necessitate an increased school tax rate to produce the same amount of tax revenue, minus the $5.40 per thousand increase in State school aid.
- Impact on cities, counties, community colleges, and other local governments:
  - Non-school local governments will respond to reduced available taxable value by raising rates, reducing expenditures, finding alternative sources of revenue, and/or reducing ending balances.
  - The mixture of the four possible outcomes will vary from local government to local government. Some local governments could be precluded from raising tax rates by limits on their maximum allowed property tax rate and some local governments may not have alternative sources of revenue available.

- **Divisions III & IV** – The Legislature will enact a replacement property tax system to take effect by FY 2012.
- **Division V** – If every locality currently imposing a local option hotel and motel tax raises their current rate by two percentage points, a total of $10.0 million will be raised annually. All of the top ten hotel/motel tax revenue cities are currently at the maximum rate. Assuming the ten raise their rate to 9.0%, $5.5 million in additional revenue will be raised for those cities.
- **Division VI** – The General Fund appropriation for the Fire and Police Retirement System in recent years has been capped at $2.7 million. It is assumed that without enactment of Division VI, the current level of appropriation will remain for future fiscal years.
- **Division VII** – The Legislative Property Tax Study Committee will expend $50,000 or less in each of the next two fiscal years.

Fiscal Impact

Division I (commercial property income tax credit) will increase General Fund appropriations by an estimated $25.0 million, from FY 2008 through FY 2012.

Division II (commercial/industrial allowed growth set at 1.0%) will increase the General Fund appropriation for school aid, compared to current law, by the following amounts:

- FY 2009 -- $ 6.9 million
- FY 2010 -- $ 9.9 million
- FY 2011 -- $17.9 million
- FY 2012 -- $21.5 million

Division II will also reduce local government revenue and/or ending balances to the extent that local governments do not choose to, or are not able to, raise property tax rates to replace the reduced commercial and industrial property tax revenue. Additional sources of local government revenue are also a possibility, and **Divisions IV and V** of HF 905 provide revenue opportunities for some cities. School districts will raise rates to offset the reduced taxable value.

Divisions III & IV (property tax authority sunset) do not have a fiscal impact as long as the property tax system is replaced prior to FY 2012.

Division V (hotel/motel tax) will increase local government revenues by an estimated $5.5 million to $10.0 million, beginning FY 2008.

Division VI (fire and police retirement) will increase General Fund appropriations by an estimated $5.8 million starting FY 2008 and decrease local government expenditures by a similar amount.

Division VII (property tax study) will increase General Fund appropriations by an estimated $50,000 in FY 2008 and in FY 2009.

Sources

Department of Management property tax files
Department of Revenue
Legislative Services Agency Analysis

Dennis C Prouty

April 19, 2007

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.