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Fiscal Note

Fiscal Services Division

SF 483 – Tax Credit Allocations (LSB2703SV)
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Fiscal Note Version – New

Description

Senate File 483 has three Divisions.

Division I limits tax credits the Department of Economic Development may award in a fiscal year through five tax credit programs to no more than $175.0 million in aggregate. The cap begins in FY 2010. The DED Board will be responsible for implementing the cap and allocating it to the included programs. Three significant tax credit programs under the limit are:

- High quality job creation
- Enterprise zone
- Film, television, and video promotion

Division I also separately limits the annual amount of tax credits that may be awarded under the agricultural asset transfer program to no more than $3.0 million, beginning in FY 2010.

Division II eliminates the ability of a company to carry back net operating losses to previous years when the company was profitable. A company would still be able to carry forward net operating losses for twenty tax years, or until the loss is exhausted, whichever comes first. The change is effective for tax year 2009 and succeeding years.

Division III increases the time the Department of Revenue has to refund taxes paid from two months after the due date to three months after the due date, before interest starts to accrue to the benefit of the taxpayer. The provision applies to tax year 2009 and succeeding years.

Assumptions

- Capping the total amount of tax credits the Department of Revenue may award in a fiscal year, beginning in FY 2010, will reduce the total future awards.
- The timeline from tax credit award to tax credit redemption for the high quality job creation program and the enterprise zone program will preclude any reduction in tax credit redemptions for FY 2010.
- The timeline from tax credit award to tax credit redemption for the film, television, and video promotion program is not as long so reduced tax credit redemptions in FY 2010 could be possible, should the DED Board choose to limit the tax credits under the film program.
- Capping tax credits under the quality jobs enterprise zone research credit program, the assistive device program, and the agricultural asset transfer program will have no impact in FY 2010 and minimal impact in future fiscal years.
- Eliminating the loss carry-back provision will have a fiscal impact in FY 2010 through reduced corporate refunds and increased corporate estimate payments.

Fiscal Impact

Division I. If the three significant programs under the proposed cap in Division I, only the FY 2010 film, television, and video production tax credits have the potential to impact the State General Fund in FY 2010, should the DED Board choose to apply a portion of the cap impact to that program. The high quality job creation program and the enterprise zone program require too much lead time from the date of award to the redemption of the credit to impact FY 2010. Since it cannot be predicted how the Board will implement the cap, and to what film projects the cap might impact, the fiscal impact of Division I to FY 2010 cannot be estimated.

The cap will reduce tax credit redemptions in future years, as long as demand for the three major programs under the cap exceeds $175.0 million per year. The amount by which credit redemptions will be reduced in future years will depend not only on how much project demand there is under the three main programs, but also on how the DED Board implements the cap.

Division II is projected to increase net General Fund revenue by the following amounts:

- FY 2010 = $18.0 million
- FY 2011 = $27.0 million
- FY 2012 = $11.0 million

Longer term, profitable companies will be able to use current loss carryforward provisions to reduce taxes paid to the State in future years. Companies that do not return to profitability, do not continue to be subject to State corporate income tax, or do not have sufficient tax liability over 20 years to recoup the loss against future taxes, will not be able to fully deduct losses that they could deduct if allowed the carryback provision.

Division III is projected to increase net General Fund revenue by $240,000 per year, beginning in FY 2010.

Sources

Department of Economic Development
Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

April 14, 2009

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to **Section 2.56**, Code of Iowa. Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.