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HF 101 – Sales Tax Exemption – Employment Agencies (LSB 1419YH)

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Fiscal Note Version – New

Requested by Representative Erik Helland

Description

House File 101 provides a sales/use tax exemption for sales and service income of executive search agencies and private employment agencies. The Bill makes the exemption retroactive to January 1, 2002.

The Bill provides for refunds of sales tax for the retroactive period (January 1, 2002, through enactment date). Sales tax refund claims for the retroactive period must be filed by October 1, 2011, and total claims are limited to \$50,000. If claims exceed \$50,000, the Department of Revenue is required to prorate the claims.

Assumptions

Assumptions include:

- Data was merged between the Workforce Development registration file and the Department of Revenue's sales/use tax database based on North American Industry Classification System (NAICS) codes.
- There were 32 executive search agencies identified generating \$1.9 million of taxable sales in Iowa during FY 2010.
- There were 127 private employment agencies identified generating \$36.7 million of taxable sales in Iowa during FY 2010.
- Based on the Department of Revenue's sales/use tax model, taxable sales are estimated to increase for FY 2011 - FY 2014 by 3.9%, 4.10%, 5.10%, and 5.80% respectively.
- The local option sales tax (LOST) statewide effective rate is 0.087% for the fiscal years estimated.

Fiscal Impact

The retroactive provision of HF 101 will reduce State General Fund receipts by a maximum of \$50,000 in FY 2012.

Beginning in FY 2012, the sales/use tax revenue will be reduced as a result of HF 101. The estimated fiscal impact of HF 101 is a reduction in State sales/use tax of \$2.5 million in FY 2012, \$2.6 million in FY 2013, and \$2.8 million in FY 2014. The impact to the State General Fund is a reduction of \$2.1 million in FY 2012, \$2.2 million in FY 2013, and 2.3 million in FY 2014. Additionally, the Secure an Advanced Vision for Education (SAVE) Fund will experience a reduction of \$400,000 in FY 2012 and FY 2013 and \$500,000 in FY 2014. The following table summarizes the fiscal impact.

Estimated Fiscal Impact of HF 101 (Dollars in Millions)

	<u>Sales/Use Tax Impact</u>	<u>General Fund Impact</u>	<u>SAVE Fund Impact</u>	<u>LOST Impact</u>
FY 2012	\$ -2.5	\$ -2.1	\$ -0.4	\$ -0.4
FY 2013	\$ -2.6	\$ -2.2	\$ -0.4	\$ -0.4
FY 2014	\$ -2.8	\$ -2.3	\$ -0.5	\$ -0.4

Sources

Iowa Department of Revenue
Iowa Workforce Development

/s/ Holly M. Lyons

March 28, 2011

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.