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Fiscal Note

Fiscal Services Division

SF 205 – Targeted Jobs Withholding Changes (LSB 1661SV)
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Fiscal Note Version – New

Description

Senate File 205 modifies the Targeted Jobs Withholding Tax Credit Pilot Project (Iowa Code section **403.19A**). Current law allows pilot cities to enter into withholding agreements with employers through June 30, 2013. The Bill extends the agreement deadline five years to June 30, 2018.

Currently, only businesses located in or moving into urban renewal areas in pilot project cities are eligible for the pilot project benefits. The Bill removes the requirement that the employer be located within an urban renewal area.

The changes apply to withholding agreements entered into on or after the effective date of the Bill.

Background

The Targeted Jobs Withholding Tax Credit Pilot Project was created in **HF 2731** (Targeted Jobs Withholding Act of 2006) with an original final agreement date of June 30, 2010. This deadline was extended to June 30, 2013, in **SF 304** (Targeted Jobs Withholding Act of 2009).

The cities qualified for participation in the Targeted Jobs Withholding Tax Credit Pilot Project are Sioux City, Council Bluffs, Burlington, Fort Madison, and Keokuk.

The Target Jobs Withholding Tax Credit is equal to 3.0% of the wages paid to employees in qualified jobs. Instead of remitting the Credit amount to the State for deposit with other withholding tax, the employer remits the Credit amount to the pilot city for deposit in a special fund for the Urban Renewal area where the targeted jobs are located. Employees whose income tax is redirected to the pilot project agreement instead of the State General Fund receive full credit for all tax withheld.

An agreement may divert withholding tax for a maximum of 10 years.

Assumptions

1. Fiscal year 2013 withholding agreements (the last year allowed under current law) are projected to total $14.7 million across the five pilot cities.
2. Using Moody's Analytics projections of U.S. Gross Domestic Product growth as a method of projecting growth in the economy of the pilot cities, program credit demand is projected to be $15.6 million in FY 2014 and grow to $19.0 million by FY 2018.
3. Based on the relative commercial and industrial (C/I) taxable value of pilot city Urban Renewal areas to their C/I total taxable value, expansion of the program to all areas of the

five pilot cities will increase credit demand by 128.0%. This increases the projections in number 2 above to $35.5 million in FY 2014, growing to $43.4 million in FY 2018.

4. Based on past experience with the program, actual tax credits will equal 78.1% of tax credits awarded.
5. Credits will be claimed over a 10-year period. Due to start-up considerations, a smaller portion of the total claim will be utilized in the first two years of 10-year agreements.

Fiscal Impact

Extending the pilot project five years and expanding it to businesses located outside of Urban Renewal areas will increase the diversion of withholding tax deposits from the State General Fund by $154.7 million over 15 fiscal years, beginning in FY 2014 and extending through FY 2027.

General Fund Revenue Reduction Due to Withholding Tax Diversion

In millions of dollars, total = $ -154.7 million

FY 2014	$	-1.0	FY 2021	$	-17.3
FY 2015		-3.1	FY 2022		-17.3
FY 2016		-6.4	FY 2023		-17.2
FY 2017		-9.8	FY 2024		-14.1
FY 2018		-13.5	FY 2025		-10.8
FY 2019		-16.0	FY 2026		-7.3
FY 2020		-17.3	FY 2027		-3.6

Source

Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.