
[HF 768](#) – Beginning Farmer Tax Credit (LSB1882HZ.1)

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Fiscal Note Version – Final Action

Description

[House File 768](#) creates a Beginning Farmer Tax Credit. The new tax credit replaces the existing Agricultural Assets Transfer Tax Credit. The new tax credit raises the annual aggregate tax credit cap from the current \$6.0 million to approximately \$12.0 million.

Like the previous version of the credit, the new tax credit is not transferable or refundable, but any unused tax credits may be carried forward for up to 10 tax years. The changes are effective for tax years beginning on or after January 1, 2019.

Background

The current Agricultural Assets Transfer Tax Credit is allowed for an owner of agricultural assets that are the subject of a lease or rental agreement with a qualified beginning farmer. The term of the agreement may be for two to five years. The tax credit is equal to 5.0% of the lease or rental agreement income if the agreement is on a cash payment basis, or 15.0% if the agreement is on a commodity share basis. The current tax credit has a \$6.0 million annual aggregate award cap that continues without sunset under current law. At the end of calendar year (CY) 2018, agreements with a total tax credit value of \$7.9 million were in place and under current law will consume some of the annual \$6.0 million cap available for the next several fiscal years. In addition, a total of \$3.9 million in agreements has been approved for the tax credit in CY 2019.

Administration of this tax credit is the responsibility of the Iowa Finance Authority (IFA). Over three years (FY 2015 through FY 2017), IFA expenses to process and monitor 1,604 applications totaled \$652,000, or \$406 per application. The Act establishes maximum application fees that IFA may charge. Through January 1, 2022, the maximum fee is \$300 to \$500 per application. After that date, the total amount of fees IFA may charge applicants is limited to no more than the cost to administer the program.

Assumptions

- The tax credit cap will be administered as a calendar year cap (January 1 through December 31).
- The \$7.9 million in agreements that exist as of the end of CY 2018 will not be included as part of the new \$12.0 million tax credit cap. A CY 2018 or earlier agreement will remain in force and will earn tax credits when each year of the agreement is completed.
- The \$3.9 million in CY 2019 agreements will be issued as part of the \$12.0 million CY 2019 credit cap. For all future agreements, the term is assumed to be three years.
- It is assumed that under the new tax credit, the estimated tax credit award for all years of each agreement will be applied to the \$12.0 million cap for that approval year. This is a change from the existing tax credit, where each year of an agreement was applied to the tax credit cap for the calendar year in which each of the years of the agreement fell.

- Under existing law, the full \$6.0 million annual cap is assumed to be awarded. Due to contract cancellations after agreements are approved, only 90.0% of the projected tax credit award increase is assumed to result in increased issuance of tax credits.
- Due to insufficient tax liability, only 70.0% of awarded tax credits will be redeemed. As nonrefundable credits, the tax credits are assumed to be redeemed over the seven years following the year of the award. The assumed redemption schedule is as follows:
 - Year 1 (initial year of award) = 0.0%
 - Year 2 = 30.0%
 - Year 3 = 15.0%
 - Year 4 through year 8 = 5.0%
- As nonrefundable credits, credit redemptions impact the calculation of the local option income surtax for schools. The surtax rate is assumed to be 2.9%.

Fiscal Impact

Replacing the existing Agricultural Asset Transfer Tax Credit with the Beginning Farmer Tax Credit is projected to decrease net General Fund revenue by the following amounts:

- FY 2020 = \$0.4 million
- FY 2021 = \$1.4 million
- FY 2022 = \$2.5 million
- FY 2023 = \$3.0 million
- FY 2024 = \$3.3 million
- FY 2025 = \$3.4 million
- FY 2026 = \$3.6 million
- FY 2027 and after = \$3.8 million

In addition, the amount of revenue raised by the local option income surtax for schools will be reduced by a projected \$0.1 million per year, beginning FY 2022.

Effective Date

This Act is effective May 21, 2019, and the changes apply retroactively to January 1, 2019.

Enactment Date

This Act was approved by the General Assembly on April 25, 2019, and signed by the Governor on May 21, 2019.

Sources

Department of Revenue
MABSCO Capital, Inc.
Iowa Finance Authority
LSA calculations

[HF 772](#) – Broadband and Housing Incentives (LSB1824HV.1)

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Fiscal Note Version – Final Action

Description

[House File 772](#) relates to broadband infrastructure and tax incentives for housing development. The Act:

- Modifies the existing broadband infrastructure grant program (Iowa Code chapter [8B](#)) administered by the Office of the Chief Information Officer (OCIO). The Act makes changes to definitions and grant application requirements. The Act also extends the current grant program sunset date five years, from July 1, 2020, to July 1, 2025. The Act does not provide funding for the grant program.
- Extends an existing property tax exemption for broadband infrastructure installed in certain areas of the State that meets minimum upload and download speeds. The exemption is extended five years to include infrastructure installations first assessed through assessment year (AY) 2026.
- Modifies the existing Workforce Housing Tax Incentives Program (WHTIP). The Act:
 - Provides for a \$5.0 million increase (from \$20.0 million to \$25.0 million) in the annual maximum aggregate tax credit amount that may be awarded to projects in a fiscal year (applies to FY 2020 and after).
 - Provides for a \$5.0 million increase (from \$5.0 million to \$10.0 million) in the existing small city project suballocation (applies to FY 2020 and after).
 - Changes the project award process from the current first-come, first-served basis to a competitive application process (applies to applications made on or after July 1, 2019).
 - Limits the tax incentives available to an individual housing project to no more than the amount of tax incentives provided in the project agreement (applies to applications made on or after July 1, 2019).
 - Notwithstanding the \$10.0 million small city project suballocation for FY 2020 and directs that up to the entire \$25.0 million FY 2020 WHTIP allocation limit is available for small city projects registered prior to July 1, 2019.
 - Provides for an additional \$10.0 million one-time allocation of WHTIP tax credits for projects in counties that meet specified major disaster criteria.

Background

The broadband infrastructure grant program is authorized in Iowa Code section [8B.11](#). Grants are awarded to communications service providers on a competitive basis. The program received a \$1.3 million appropriation from the Rebuild Iowa Infrastructure Fund (RIIF) for FY 2019. In addition, [HF 759](#) (FY 2020 Administration and Regulation Appropriations Act) appropriates \$5.0 million from the General Fund to the program in FY 2020. While this Act extends the availability of the program, it does not provide future funding.

The property tax exemption for qualified broadband infrastructure was enacted in [HF 655](#) (2015 Community Development Act). The exemption applies to the installation of infrastructure meeting specified minimum upload and download speeds. To qualify, an infrastructure project had to commence and be completed on or after July 1, 2015, and before July 1, 2020. This Act removes the upload and download

speed minimums and replaces them with speeds identified by the [Federal Communications Commission](#) pursuant to Section 706 of the federal Telecommunications Act of 1996.

However, [SF 2388](#) (2018 Telecommunications Property Tax Assessment Act) exempts broadband infrastructure from taxation as real property beginning with AY 2022. At that time, property taxation of telecommunications companies will be restricted to the value of land and buildings and, as a result, the value of broadband transmission property will not be subject to property tax. Therefore, this Act's extension of the property tax exemption for qualified broadband infrastructure will have no fiscal impact because such infrastructure will be exempt under existing law.

Current law provides that the WHTIP provides investment tax credits and sales/use tax refunds for housing businesses that complete qualified housing projects in Iowa. The current process is first-come, first-served. If a project registered with the Iowa Economic Development Authority is completed within a specified time limit, is examined by a certified public accountant, and all other requirements of the WHTIP are satisfied, investment tax credits and/or sales/use tax refunds are authorized. Currently, the tax incentive total issued in a fiscal year under the WHTIP is limited to \$20.0 million, with a suballocation of up to \$5.0 million per fiscal year reserved for projects located in any Iowa county that is not one of the 11 most populated counties.

The WHTIP provides a 20.0% investment tax credit for projects located in Iowa's 88 least-populated counties and a 10.0% investment tax credit for projects located in the 11 most-populated counties. The tax credit percentage for projects qualifying for the one-time \$10.0 million disaster allocation is 20.0%.

The WHTIP has been in place since FY 2015. From FY 2015 through FY 2019, a total of \$100.0 million in WHTIP incentives was allocated to projects, and a backlog of approximately \$54.0 million in registered projects has developed. Under current law, credit awards to completed projects will wait until additional annual allocations become available.

Assumptions — Workforce Housing Tax Incentives Program

- The Act raises the allocation cap for the WHTIP by \$5.0 million per fiscal year, beginning FY 2020. The remaining changes to the WHTIP have no identifiable impact on the redemption of WHTIP tax credits or refunds. It is assumed that under current law, \$20.0 million in tax incentives will be awarded each fiscal year, and under the Act, \$25.0 million in tax incentives will be awarded each fiscal year.
- The annual \$5.0 million increase in tax credit awards is assumed to be divided into \$1.2 million in increased sales/use tax refunds and \$3.8 million in increased investment tax credits.
- The WHTIP investment tax credits are transferable but not refundable. It is assumed that 94.0% of the awarded investment tax credits will be redeemed over the course of six fiscal years and the timetable for redemptions will equal:
 - Year 1 (fiscal year of award) = 46.0%
 - Year 2 = 35.0%

- Year 3 = 6.0%
- Year 4 = 3.0%
- Year 5 = 2.0%
- Year 6 = 2.0%
- Sales/use tax refunds issued under the WHTIP are assumed to be redeemed at a rate of 76.8% of the award amount, with 50.0% of the 76.8% redeemed in the initial fiscal year of the award and 50.0% in the succeeding fiscal year.
- The additional \$10.0 million in WHTIP tax credits for disaster areas is assumed to be redeemed as follows:
 - FY 2021 = \$0.9 million
 - FY 2022 = \$4.0 million
 - FY 2023 = \$3.0 million
 - FY 2024 = \$0.6 million
 - FY 2025 = \$0.3 million
 - FY 2026 = \$0.2 million
 - Expiring unredeemed = \$1.0 million

Fiscal Impact

For the broadband infrastructure provisions of the Act (Division II):

- The extension of the authorization of the broadband grant program does not have a fiscal impact without additional funds dedicated to the program's purpose.
- The OCIO will continue to administer the grant program and can be assumed to continue to incur administrative expenses if additional State funding is provided to the grant program.
- The extension of the property tax exemption for qualified broadband infrastructure installed prior to January 1, 2027, does not have a fiscal impact on State or local government, as that type of property is already exempt under current law.

The WHTIP provisions of the Act (Division III) are projected to reduce net General Fund revenue by the following amounts:

- FY 2020 = \$2.2 million
- FY 2021 = \$4.9 million
- FY 2022 = \$8.2 million
- FY 2023 = \$7.2 million
- FY 2024 = \$5.0 million
- FY 2025 and after = \$4.8 million

As nonrefundable tax credits that may be applied against State individual income tax liability, the investment tax credit portion of the allocation limit increase could lower the amount of revenue raised by the local option income surtax for schools by as much as \$100,000 per fiscal year.

Effective Date

Division III (housing incentives) of this Act is effective May 20, 2019. Divisions I and II (Act title and broadband incentives) of this Act are effective July 1, 2019.

Enactment Date

This Act was approved by the General Assembly on April 24, 2019, and signed by the Governor on May 20, 2019.

Sources

Department of Revenue
Iowa Economic Development Authority
Office of the Chief Information Officer

[HF 778](#) – Farming Capital Gains Tax Exemption (LSB1794HV.1)
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Fiscal Note Version – Final Action

Description

[House File 778](#) modifies the income tax exemption for a qualified capital gain realized through the sale of real property used in a farming business. The change is effective once the contingent individual income tax system established in [SF 2417](#) (2018 Tax Modifications Act) becomes effective. The earliest possible effective tax year (TY) for the contingent system is TY 2023.

The contingent tax system allows a capital gains exemption for the sale of farming business real property if certain sale conditions are met. The current capital gains exemption under the contingent tax system requires all of the following:

- That the taxpayer realizing the capital gain has materially participated in the farming business for at least 10 years and has owned the real property for at least 10 years.
- That the sale that produced the capital gain was to a qualified relative, where either:
 - The relationship to the purchaser was the result of a common ancestor (consanguinity, or blood relative), or
 - The sale was to a lineal descendant (including adopted children).

Current law disallows the exemption if the property is sold by the purchasing relative within five years to a nonqualifying person. The deduction is also disallowed where a net operating loss is deducted on the taxpayer's tax return for that tax year. Also, all buildings which are primarily used or intended for use as human habitation are excluded from the exemption.

The changes in the Act expand the availability of the capital gains exemption to include additional capital gains situations. Expansions include:

- All sales to relatives, as defined in the Act, result in a capital gain exemption for the seller, without regard to whether the owner materially participated in the farm operation or to the length of time the real property was owned by the taxpayer.
- The disallowance of the exemption upon sale within five years to a nonqualifying person is removed.
- The disallowance for tax years where a net operating loss is deducted is removed.
- A sale to an entity (LLC, corporation, etc.) in which a qualifying purchaser has an interest at the time of the sale qualifies for the exemption.
- Sales to affinity (i.e., by marriage) relatives as well as blood relatives qualify for the exemption.
- The sale of a building primarily used for human habitation is included in the exemption if the building is located on or adjacent to the farming business property.

Assumptions

- Using Iowa income tax returns filed for TY 2017, the Department of Revenue estimates that the changes in the Act will increase the annual aggregate amount of capital gains exempted from Iowa income tax by \$148.0 million.
- The contingent income tax system is assumed to be effective the first tax year possible, TY 2023.
- The average marginal income tax rate for the impacted tax returns will equal 5.3% in TY 2023 and after.
- Qualified farm taxpayers are not required to make estimate payments, and capital gains income is not subject to withholding. Therefore, TY 2023 fiscal impacts will occur when TY 2023 tax returns are filed in spring 2024 (FY 2024).
- The average local option income surtax rate for schools will equal 2.9% of State income tax liability.

Fiscal Impact

The expansion of the farming business capital gains exemption currently allowed under the contingent income tax system is projected to decrease net General Fund revenue by \$7.8 million per fiscal year. In addition, revenue raised by the local option income surtax for schools will be reduced by \$227,000 per year. Both revenue reductions will begin FY 2024.

Effective Date

This Act is effective July 1, 2019.

Enactment Date

This Act was approved by the General Assembly on April 25, 2019, and signed by the Governor on May 21, 2019.

Source

Department of Revenue

[HF 779](#) – Tax Code Changes (LSB2786HV.2)

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Fiscal Note Version – Final Action

Description

[House File 779](#) makes changes to the application and administration of Iowa sales, property, and income (individual, corporate, bank franchise, and credit union) tax provisions. The Act has various applicability dates including retroactive applicability dates.

Explanation and Assumptions

Provisions with Estimated Fiscal Impacts

Refer to page 8 for the table of projected General Fund revenue change by the provisions outlined below.

Division I, Sections 9 and 12: Requires nonresident taxpayers claiming the Early Childhood Development (ECD) Tax Credit to prorate the ECD claims based on the ratio of Iowa-source income to income from all income reported on their tax returns. The change is effective beginning tax year (TY) 2019. The change is projected to increase net General Fund revenue. Assumptions used in developing the estimate include:

- The Department of Revenue (DOR) estimated the impact on nonresident taxpayers using the DOR model of all Iowa income tax returns. The model results estimate that the change will increase total tax liability by \$38,000 per tax year, beginning TY 2019.
- Of the \$38,000 estimated revenue increase for TY 2019, the Legislative Services Agency (LSA) estimates that 5.0% will impact FY 2019 through increased withholding and estimate payments, and 95.0% will impact FY 2020.
- Of the \$38,000 estimated increase in TY 2020 and after, the LSA estimates that 17.0% will impact the fiscal year in which the tax year begins, and 83.0% will impact the next fiscal year.

Division I, Section 11: Extends the tax benefits of like-kind exchanges for Iowa corporate income and bank franchise tax purposes to include the exchange of all property, not just real property, for TY 2019. The change is projected to reduce net General Fund revenue by \$0.9 million over two fiscal years. The DOR developed the estimate from an [analysis](#) prepared by the federal Joint Committee on Taxation.

Division III, Section 21: Specifies that both carpentry repair and carpentry installation are taxable services subject to Iowa sales tax.¹ Current law lists the term “carpentry” as a service subject to Iowa sales tax. The change is effective July 1, 2019. The change is projected to increase sales tax revenue. The following assumptions were used to estimate the revenue increase:

- A total of \$16.9 million in carpentry services will become newly subject to sales tax in FY 2019, and the total will increase 2.3% each fiscal year.
- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

¹ In this document, the term “sales tax” includes use tax where applicable.

Division III, Section 22: Exempts grain bins and the materials used to build and repair grain bins from the sales tax. The change is effective retroactive to July 1, 2019. The following data source and assumptions were used to estimate the revenue increase:

- Iowa on-farm grain storage capacity statistics from the National Agricultural Statistics Service were used to estimate Iowa grain storage capacity, replacement rate, and replacement costs.
- Grain storage capacity in Iowa equals 2.12 billion bushels.
- New and replacement capacity equals 2.4% of each year's existing capacity.
- The cost of new and replacement capacity is assumed to equal \$2.00 per bushel of capacity, and that cost is assumed to increase 2.3% per year.
- No additional cost is assumed for maintenance and repair costs.
- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division III, Section 23: Adds supplies and replacement parts purchased for use at property that is centrally assessed to the exclusions from the existing machinery and equipment sales tax exemption. The change is retroactive to January 1, 2016. The following data sources and assumptions were used to estimate the revenue increase:

- Department of Revenue use tax returns from businesses assumed to be centrally assessed companies.
- Modern Materials Handling Magazine surveys.
- In FY 2018, centrally assessed business purchases subject to use tax totaled an estimated \$352.8 million. An amount equal to 3.0% of those purchases (\$10.58 million) is assumed to be impacted by this Act.
- The value of purchases made by centrally assessed businesses and impacted by the change will increase 5.0% per year.
- Without the retroactive change, an estimated \$0.9 million in sales tax refunds related to this issue is expected to be paid in FY 2020.
- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division III, Sections 25 through 27: Removes the 200-sale threshold for remote sellers, marketplace facilitators, and referrers. Iowa law currently requires these types of entities, if they do not have traditional sales tax nexus in Iowa, to collect and remit sales tax if they complete at least 200 sales to Iowa customers in a year or have taxable sales to Iowa customers of at least \$100,000 in a year. With this change, remote sellers will only be subject to the \$100,000 threshold. The change is effective July 1, 2019. The following assumptions were used to estimate the revenue decrease:

- The DOR estimates that for FY 2020, 956 out-of-state retailers will have at least 200 Iowa transactions in a year but less than \$100,000 in Iowa sales. The Department expects that number to increase by 10.0% per year for the next five years.
- The average yearly Iowa sales amount for the impacted retailers is assumed to be \$18,600 in FY 2020, and that amount is assumed to increase 2.3% each year.
- The businesses impacted by the change are assumed to stop collecting and remitting tax to Iowa as a result of the change.

- The State sales tax rate is 5.0%, the State sales tax rate for school infrastructure is 1.0%, and the average local option sales tax rate is 0.9%.

Division V: Allows qualified property of competitive long-distance telephone companies to be centrally assessed by the DOR and taxed in the same manner as commercial property. The change is retroactive to July 1, 2018. Compared to the situation under current law, enactment of the changes will reduce the property tax owed by the companies for FY 2021 through FY 2023. The property tax reduction will result in decreased local government property tax revenue and an increase in the General Fund appropriation for school aid. The following assumptions were used to estimate the property tax revenue decrease and appropriation increase:

- The DOR estimates that Division V will decrease the taxed valuation of competitive long-distance telephone companies by \$55.53 million in assessment year 2019 (FY 2021). The value is assumed to increase 2.3% each fiscal year.
- The FY 2019 statewide average property tax rate for utility property was \$27.73 per \$1,000 of taxed valuation. This rate is assumed to remain constant in future fiscal years. Of the \$27.73, the school basic levy component equals \$5.40.
- By action of the State school aid formula, property tax exemptions increase the General Fund appropriation to schools by \$5.40 per \$1,000 of exempted valuation. This causes the revenue reduction of a \$27.73 property tax rate to reduce local government revenue by \$22.33, as schools are reimbursed by the State General Fund for the remaining \$5.40.

Division VI: Extends the Targeted Jobs Withholding Credit Pilot Project, set to expire June 30, 2019, to June 30, 2021. The program offers a withholding tax credit to businesses that are located in or expand into one of the pilot project cities:

- Sioux City
- Council Bluffs
- Burlington
- Keokuk
- Fort Madison

Qualified businesses sign an agreement with the city and the Iowa Economic Development Authority. The tax credit equals 3.0% of gross wages paid to each employee covered by the agreement. The following assumptions were made to estimate the fiscal impact of this change:

- An average year's agreements under the existing program has equaled \$5.0 million in withholding credits. That level of awards is assumed for each of the four extended years.
- One-half of the annual award amount will be five-year awards, and one-half will be 10-year awards. For five-year awards, the annual tax credit will equal 16.0% of the award amount each year for five years, and 20.0% of the award will expire unused. For 10-year awards, the annual tax credit will equal 8.0% of the award amount each year for 10 years, and 20.0% of the award will expire unused.
- The impact of the extended tax credit will begin in FY 2020 and extend to FY 2032.

Division VII: Increases the annual aggregate award cap for the [School Tuition Organization \(STO\) Tax Credit](#) from the current \$13.0 million to \$15.0 million, effective beginning CY 2020.

The following facts, assumptions, and sources were used in developing the fiscal impact estimate for this provision:

- The tax credit is equal to 65.0% of a qualified contribution to an STO. Therefore, an increase in the STO cap of \$4.0 million translates to \$6.15 million in increased STO contributions.
- Contributions to STOs that earn the taxpayer a 65.0% tax credit are not allowed to also be used as an itemized deduction for Iowa tax purposes. Some taxpayers making qualified contributions to STOs may make that contribution instead of a contribution to another charity or organization that would earn the taxpayer an itemized deduction. It is assumed that 50.0% of the additional \$6.15 million displaces contributions that would earn the taxpayer a usable itemized deduction. The average marginal State income tax rate for taxpayers utilizing itemized deductions is assumed to be 6.9% through TY 2022 and 6.5% for TY 2023 and after. This calculation will offset the annual tax credit cost by \$0.2 million.
- School Tuition Organization Tax Credits are not refundable or transferable, but unused credits may be carried forward for up to five additional tax years. Based on historical STO Tax Credit claims, 94.0% of awarded credits are redeemed and 6.0% expire unredeemed. The assumed redemption pattern is:
 - Year 1 = 60.0% of the amount awarded
 - Year 2 = 20.0%
 - Year 3 = 8.0%
 - Years 4 through 6 = 2.0% per year
- The STO credit is not refundable, so it impacts the calculation of the local option income surtax for schools. The impact on the surtax is assumed to be an amount equal to 2.9% of the General Fund impact.
- The LSA estimates that 10.0% of each tax year's tax reduction will impact the fiscal year in which the tax year begins, and 90.0% will impact the next fiscal year.

Division VIII: Reestablishes the individual income tax checkoffs for the Iowa State Fair Foundation Fund and the joint Veterans Trust Fund and Volunteer Fire Fighter Preparedness Fund. The changes are effective for tax years (TY) 2019 and 2020.

A checkoff allows a taxpayer who files an Iowa individual income tax return to designate a dollar amount to be contributed to a specific fund.

For TY 2018, the following four checkoffs were included on the form:

- Iowa State Fair Foundation Fund
- Fish and Game Protection Fund
- Child Abuse Prevention Program Fund
- Joint Veterans Trust Fund and Volunteer Fire Fighter Preparedness Fund

Iowa Code section [422.12E](#) provides that when the same four income tax checkoffs have been on the tax return for two consecutive tax years, the two checkoffs with the least amount of contributions over a specified time period are repealed. The Iowa State Fair Foundation Fund and the joint Veterans Trust Fund and Volunteer Fire Fighter Preparedness Fund received the lowest contributed amounts over the latest specified period, so both were repealed by operation of law. The following table shows the average annual tax checkoff contribution amounts for the last 10 tax years (TY 2008 through TY 2017) and the last two tax years.

Checkoff	Tax Years	
	Last 10 Tax Years	2016 & 2017 Only
Fish and Wildlife	\$131,872	\$148,354
State Fair	65,944	64,167
Veterans/Fire Fighter	62,543	72,098
Child Abuse	66,690	79,472
Total	\$327,049	\$364,091

The tax checkoffs available on an Iowa individual income tax return are voluntary contributions, and any contribution made represents money donated by the taxpayer and not money diverted from the State General Fund. Reestablishing the two repealed checkoffs will give Iowa taxpayers the opportunity to donate to the two programs through the tax return process for TY 2019 and TY 2020. Annual contributions to the two checkoffs average about \$65,000 each.

Division X: Expands the existing sales tax exemption for manufacturers by adding the word “primarily” to the definition of “manufacturer.” This change will allow companies that are primarily manufacturers, but also engage in activities that are not manufacturing, to benefit from the sales tax exemption for manufacturers. The change is effective retroactive to May 30, 2018.

Changes that narrowed the definition of “manufacturer” for the purpose of the sales/use tax exemption have been in place for less than one year, so insufficient information exists to measure the impact of the changes on differing manufacturing business situations. It is likely that the narrowing of the definition to exclude companies that engage in manufacturing and also engage in nonmanufacturing activities has impacted the sales tax exemption for some businesses. This assumed likelihood means that the fiscal impact of this provision is not zero. Assumptions used to estimate the fiscal impact of the provision include:

- The March Revenue Estimating Conference estimate for FY 2020 State General Fund sales tax net revenue (gross tax receipts minus tax refunds and the transfer to school infrastructure finance) is \$2.497 billion. This amount is assumed to increase 2.3% per year.
- The Act will result in an assumed annual reduction in sales tax net revenue of 0.007%.

Division XIV: Eliminates the Iowa bank franchise alternative minimum tax. The change is effective January 1, 2021 (TY 2021). A related credit for alternative minimum taxes paid is eliminated for TY 2022 and after. Assumptions used to estimate the fiscal impact of the provision include:

- Financial institution tax return information is based on TY 2016 and TY 2017 (the two most recent available tax years). For both years, approximately 2.0% of financial institutions paid the bank franchise alternative minimum tax. Based on the average of the two years, the DOR estimates that eliminating the bank franchise alternative minimum tax will reduce tax liability by 4.6% for TY 2021 and by 2.1% for TY 2022 and each year thereafter.
- The tax liability reduction estimates are applied to the March 2019 Revenue Estimating Conference estimates for bank franchise tax revenue (\$41.3 million for FY 2019 and \$50.1 million for FY 2020, with revenue levels beyond FY 2020 assumed to increase 2.6% per year).
- Shareholders of financial institutions organized as S corporations or LLCs are allowed to claim an income tax credit for Iowa franchise taxes paid. Based on historical tax return data for financial institution shareholders, it is assumed that 50.0% of the decreased tax liability will result in decreased income tax credits for franchise taxes paid.
- Banks are required to remit bank franchise tax as quarterly estimated payments. The LSA estimates that 50.0% of each tax year's tax reduction will impact the fiscal year in which the tax year begins, and 50.0% will impact the next fiscal year.

Division XV: Reenacts the Geothermal Heat Pump Tax Credit. This credit was repealed in [SF 2417](#) (2018 Tax Modifications Act). The credit is equal to 20.0% of a similar federal tax credit. That federal tax credit is currently equal to 30.0% of installation costs, so that makes the Iowa credit equal to 6.0% of installation costs. The federal tax credit is repealed December 31, 2021. With the impending federal repeal, the reenacted tax credit will allow Iowa installations to earn a credit for three years (CY 2019 through CY 2021). The Act places a maximum annual cumulative tax credit claim limit for the Iowa credit of \$1.0 million. Any claims in excess of that amount for a calendar year are waitlisted and eligible to claim credits in the next year.

- Based on credit demand for the previous Iowa credit, it is assumed that installation costs will total \$35.0 million per year for the three years. Upcoming reductions in the federal tax credit rate to 26.0% for CY 2020 and 22.0% for CY 2021 mean that the Iowa rate will be 5.2% in CY 2020 and 4.4% in CY 2021. Based on the assumed value of installations and the Iowa tax credit percentage, the amount of annual credits earned from Iowa installations will equal:
 - CY 2019 = \$2.10 million
 - CY 2020 = \$1.82 million
 - CY 2021 = \$1.54 million
- The Act limits annual credit claims to \$1.0 million. The assumed level of credits earned is \$5.46 million. This means that a waitlist will develop, and tax credit redemption will occur over at least six tax years (TY 2019 through TY 2024).

Provisions with Minor or No Estimated Fiscal Impact

Division I, Sections 1 through 3: Clarifies Iowa tax provisions related to the Qualified Business Income (QBI) deduction for TY 2019. The changes will allow for easier administration of the QBI income tax provisions.

Division I, Section 4: Specifies that the membership of a board of directors of an STO may exceed seven in number.

Division I, Sections 5 through 8 and 13: Clarifies that the STO Tax Credit annual limit is a calendar year limit.

Division I, Section 10: Updates Internal Revenue Code reference language related to the bank franchise alternative minimum tax.

Division II: Allows simplified disclosure of tax information to a person authorized by the taxpayer to receive the taxpayer's information.

Division III, Section 19: Changes the term "entity" to "person" as it relates to the term "affiliate" as it applies to the duty to collect and remit sales tax. The DOR reports that this change is for clarity and the language will aid in tax administration and enforcement.

Division III, Sections 20 and 24: Makes the entire purchase price of a software maintenance service or warranty contract subject to sales/use tax if the service portion of the contract price is not separately listed. Under current law, this situation would result in one-half of the contract price being subject to sales tax. The change also makes the purchase exempt from sales tax if the purchaser is a commercial enterprise. Together, the changes mean that only purchases made by entities that do not qualify as a commercial enterprise will be subject to tax. The DOR indicates that the overall impact of the changes will be slightly positive.

Division III, Sections 28 and 29: Allows certain sales/use tax reports required of a referrer (online sales) to be filed on an annual, rather than monthly, basis, and requires the DOR to implement certain sales/use tax referrer requirements by administrative rule.

Division III, Section 30: Strikes a provision that automatically registers with Iowa any retailer that registers in any state that is part of the Streamlined Sales Tax Agreement.

Division III, Section 31: Establishes a Taxation and Exemption of Computers Task Force to review the definition of "computer" as it relates to the existing sales tax exemption for computers. The DOR is directed to provide any recommendations of the Task Force to the General Assembly by January 1, 2020. The only fiscal impact of the provision would be the administrative costs to the DOR.

Division IV: Clarifies the application and collection of the automobile rental excise tax.

Division IX: Adds the examination and audit of all taxes collected or administered by the DOR to the powers and duties of the Director of the DOR.

Division XI: Expands the list of industries eligible to claim the Research Activities Credit (RAC) to include agriscience. The change is effective retroactive to January 1, 2017 (TY 2017). Under current law, and effective TY 2017, eligible industries must meet the following two requirements to be eligible for the Iowa RAC:

- Claim and be allowed the Federal Research Credit for the Iowa research claimed.
- Be engaged in one of the following industries:
 - Manufacturing
 - Life sciences
 - Software engineering
 - Aviation and aerospace

Agriscience is interpreted by the DOR to be a life science industry and currently eligible for the RAC under existing law. Therefore, the change is considered a clarification and does not have a fiscal impact.

Division XII: Allows a qualified taxpayer to claim the entirety of the Adoption Tax Credit in the tax year when the adoption is finalized. Under current law, the eligible taxpayer must file an amended return for expenses incurred during tax years prior to the finalization of the adoption. The change applies retroactively to TY 2019. While the change may have a small General Fund revenue impact between fiscal years, it is not expected to decrease tax revenue across multiple fiscal years.

Division XIII: Extends the current sunset date for the [Utility Replacement Tax Task Force](#) for five years, to January 1, 2024. The Task Force studies the effect of electric, natural gas, and water utility replacement taxes (a local tax that replaces property tax) on local taxing authorities.

Division XVI: Administrative change to the imposition of the moneys and credits tax (the income tax paid by credit unions). No changes are made to the tax itself.

Fiscal Impact

The projected fiscal impact of the various provisions of the Act is summarized in the following table.

Projected State General Fund Revenue Change by Provision							
In Millions							
<u>Division/Section</u>	<u>Provision</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Div. I, Sec. 9	ECD Nonresident	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Div. I, Sec. 11	Like-Kind Exchanges	-0.2	-0.7	0.0	0.0	0.0	0.0
Div. III, Sec. 21	Carpentry	0.0	0.8	0.9	0.9	0.9	0.9
Div. III, Sec. 22	Grain Bins	0.0	-5.2	-5.3	-5.5	-5.6	-5.8
Div. III, Sec. 23	M & E Exemption	0.6	1.5	0.6	0.6	0.7	0.7
Div. III, Sec. 25-27	Seller 200 Nexus	0.0	-0.9	-1.0	-1.1	-1.3	-1.4
Div. VI	Targeted Jobs	0.0	-0.6	-1.2	-1.2	-1.2	-1.2
Div. VII	STO Tax Credit	0.0	-0.1	-1.1	-1.5	-1.7	-1.7
Div. X	Manufacturer Def.	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Div. XIV	Franchise Tax AMT	0.0	0.0	-0.6	-0.9	-0.6	-0.6
Div. XV	Geothermal Tax Credit	0.0	-1.0	-1.0	-1.0	-1.0	-1.0
	Total	\$ 0.4	\$ -6.4	\$ -8.9	\$ -9.9	\$ -10.0	\$ -10.3

Projected State General Fund Appropriation Change by Provision							
In Millions							
<u>Division/Section</u>	<u>Provision</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Div. V	School Aid Approp.	\$ 0.0	\$ 0.0	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3

Projected Local Revenue Change by Revenue Type							
In Millions							
<u>Local Revenue Type</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	
School Infrastructure	\$ 0.1	\$ -0.9	\$ -1.0	\$ -1.0	\$ -1.1	\$ -1.2	
Local Option Sales Tax	0.1	-0.9	-0.8	-0.9	-0.9	-0.9	
School Income Surtax	0.0	0.0	0.0	0.0	0.0	0.0	
Property Tax	0.0	0.0	-1.2	-1.3	-1.3	-1.3	
Total	\$ 0.2	\$ -1.8	\$ -3.0	\$ -3.2	\$ -3.3	\$ -3.4	

ECD = Early Childhood Development Tax Credit	STO = School Tuition Organization
CDC = Child and Dependent Care Tax Credit	AMT = Alternative Minimum Tax
M & E = Machinery and Equipment	RAC = Research Activities Credit

Effective Date

This Act is generally effective July 1, 2019. However, several provisions are effective upon enactment. The various provisions that are effective upon enactment apply retroactively to various dates specified in the Act.

Enactment Date

This Act was approved by the General Assembly on April 27, 2019, and signed by the Governor on May 16, 2019.

Sources

Department of Revenue
Joint Committee on Taxation (U.S. Congress)
National Agricultural Statistics Service
Iowa Department of Commerce
Legislative Services Agency analysis

[SF 220](#) – Corporation Section 179 Expensing (LSB2118SV.1)
Analyst: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

[Senate File 220](#) expands the Internal Revenue Code Section [179](#) expensing cap and investment limit for corporations to the same level that was established for individual income taxpayers in [SF 2417](#) (2018 Tax Modifications Act). The expansion is effective beginning tax year (TY) 2018.

Background

In 2018, [SF 2417](#) raised the Section 179 expansion cap and investment limit for individual taxpayers to \$70,000/\$280,000 for TY 2018 but did not change those parameters for corporations. The cap increase was not effective for corporations (S-corporations and C-corporations). This Act expands the TY 2018 Section 179 cap and investment limit to \$70,000/\$280,000 from the current \$25,000/\$200,000 for corporations, including C-corporations, financial institutions, and S-corporations.

Assumptions

- Under current law, it is estimated that Section 179 deductions reported by C-corporations with positive Iowa tax liability would total \$15.0 million for TY 2018.
- It is estimated that under the proposal, Section 179 deductions reported on Iowa corporation income tax returns would total about \$30.0 million for TY 2018.
- The current effective marginal income tax rate is assumed to be 9.2%.
- Based on the timing of when the 2017 returns were filed, it is assumed that 48.0% of net changes from the higher Section 179 deductions allowed for TY 2018 would be realized in FY 2019 and 52.0% would be realized in FY 2020.

Fiscal Impact

The Section 179 expansion to corporate entities will reduce net General Fund revenue by an estimated \$620,000 in FY 2019 and \$430,000 in FY 2020. The change will result in a General Fund revenue increase over the next seven fiscal years totaling approximately \$1.0 million.

Effective Date

This Act is effective March 15, 2019, and changes apply retroactively to January 1, 2018.

Enactment Date

This Act was approved by the General Assembly on March 11, 2019, and signed by the Governor on March 15, 2019.

Source

Department of Revenue

[SF 306](#) – State Park User Fee Pilot Program (LSB1034SV.2)
Analyst: Debra Kozel (515.281.6767) deb.kozel@legis.iowa.gov
Fiscal Note Version – Final Action

Description

[Senate File 306](#) establishes a State Park User Fee Pilot Program in the Department of Natural Resources (DNR). The Program allows the DNR to charge nonresidents who visit Lake Manawa State Park or Waubonsie State Park the following fees:

- One-day entrance fee of \$5 per vehicle.
- Annual pass fee of \$40 for one vehicle and the option to buy a second vehicle pass for a fee of \$15.

The Act allows the Department to establish separate fees for residents and nonresidents related to camping and shelter rentals.

Background

Lake Manawa State Park is located near Council Bluffs, Iowa, and is approximately 10 minutes from Omaha, Nebraska. Waubonsie State Park is in southwest Iowa and is located near Nebraska and Missouri. Although Missouri does not charge a state park user fee, the state of Nebraska charges residents a \$6 one-day entrance fee to a state park, and nonresidents are charged \$8. The annual fee is \$30 for residents and \$45 for nonresidents. A duplicate or second vehicle pass is \$15 for residents and \$22.50 for nonresidents. Since Iowa does not charge state park entrance fees, numerous Nebraska residents visit Lake Manawa State Park.

Assumptions

Lake Manawa State Park:

- There will be an estimated 720,000 nonresident visitors per year at Lake Manawa State Park. There will be four persons in each vehicle, so there will be 180,000 nonresident vehicles that enter the park.
- It is estimated that 60.0%, or 108,000 vehicles, will be repeat customers who visit 25 times per year. This equals 4,320 unique nonresident vehicles (108,000 vehicles/25 visits).
- It is estimated there will be a 30.0% decrease in attendance due to the fee, which reduces the number of unique vehicles of nonresidents who will purchase an annual pass to 3,024 in year one.
- There will be a 5.0% increase in attendance in year two, with annual passes sold for 3,175 vehicles of nonresidents.
- Up to 72,000 nonresidents will purchase a daily pass for their vehicles. It is estimated the first year will have a 30.0% decrease in attendance due to the fee, which will reduce the number of vehicles that enter the park to 50,400 in year one. In year two, the number of daily passes sold will increase by 5.0% to 52,920.

Waubonsie State Park:

- There will be 79,000 nonresident visitors per year at Waubonsie State Park. There will be four persons in each vehicle, so there will be 20,000 nonresident vehicles that enter the park.
- It is estimated that 60.0%, or 12,000 vehicles, are repeat customers who visit 25 times per year. This equals 470 unique nonresident vehicles (12,000 vehicles/25 visits).
- It is estimated there will be a 30.0% decrease in attendance due to the fee, which reduces the number of unique vehicles of nonresidents who will purchase an annual pass to 330 in year one.
- There will be a 5.0% increase in attendance in year two, with annual passes sold for 350 vehicles of nonresidents.
- Up to 7,900 nonresidents will purchase a daily pass for their vehicles. It is estimated the first year will have a 30.0% decrease in attendance due to the fee, which will reduce the number of vehicles that enter the park to 5,500 in year one. In year two, the number of daily passes sold will increase by 5.0% to 5,800.

The DNR estimates the following fees will be collected as summarized in **Table 1**:

Table 1 – State Park User Fee Pilot Program Fees Collected

<u>Fees</u>	<u>FY 2020</u>	<u>FY 2021</u>
Annual Pass Fee	\$ 134,000	\$ 141,000
Daily Pass Fee	280,000	294,000
Total Fees	<u>\$414,000</u>	<u>\$ 435,000</u>

Both parks will require four self-service kiosk machines that will not need to be staffed. The estimated cost for the eight machines is \$120,000. Other operating expenditures are detailed in **Table 2**:

Table 2 – State Park User Fee Pilot Program Expenditures

<u>Expenditures</u>	<u>FY 2020</u>	<u>FY 2021</u>
Purchase of Eight Kiosk Machines	\$ 120,000	\$ 0
Staff — Enforcement and Administration	54,000	57,000
Support and Supplies for Operations	20,000	21,000
Point of Sale Equipment for Pay Stations	25,000	26,000
Total Expenditures	<u>\$219,000</u>	<u>\$ 104,000</u>

Fiscal Impact

The estimated fiscal impact of [SF 306](#) is summarized in **Table 3**:

Table 3 – State Park User Fee Pilot Program Fiscal Impact

<u>Description</u>	<u>FY 2020</u>	<u>FY 2021</u>
Revenue	\$ 414,000	\$ 435,000
Expenditures	219,000	104,000
Total Net Revenue	\$195,000	\$ 331,000

Effective Date

This Act is effective July 1, 2019, and is repealed July 1, 2022.

Enactment Date

This Act was approved by the General Assembly on April 25, 2019, and signed by the Governor on May 9, 2019.

Source

Department of Natural Resources

[SF 597](#) – Blood Processing Centers, Sales Tax Exemption (LSB1397SV.3)

Analyst: Kent Ohms (515.725.2200) kenneth.ohms@legis.iowa.gov

Fiscal Note Version – Final Action

Description

[Senate File 597](#) revises the sales and use tax exemption in Iowa Code section [423.3](#)(26A) for reagents and related accessory equipment sold or furnished to a regional blood testing facility under certain conditions and makes an exemption for tangible personal property sold or test laboratory services furnished that are directly and primarily involved in the processing of human blood.

Background

The two main entities affected by the Act are LifeServe Blood Center (LBC) and Mississippi Valley Regional Blood Center (MVRBC). For this analysis, expenditure data from IRS Tax Form 990 reported by the two agencies from 2014 to 2017 was utilized. The IRS 990 forms are representative of the total operations of federally tax-exempt organizations, in this case the nonprofit blood centers in the United States, so estimated allocation of activities in and outside of Iowa was obtained from the organizations.

Assumptions

- Sales of laboratory testing reagents to MVRBC are already exempt under Iowa Code section [423.3](#)(26A).
- MVRBC medical supplies expenditures are 66.0% sourced in Iowa, with the remainder occurring in other states. Equipment rental and maintenance expenditures are 50.0% sourced in Iowa.
- LBC total expenditures are 85.0% sourced in Iowa, with the remainder occurring in other states.
- Total expenditures for medical supplies and testing supplies from 2014 to 2017 trended downward for both LBC and MVRBC. This trend is consistent with the federal Bureau of Labor Statistics' Producer Price Index for Blood and Organ Banks, which indicates the costs of inputs are falling. This rate of decline is projected to continue.
- MVRBC is located in Davenport, which has a 1.0% local option sales tax (LOST) for a total sales tax rate of 7.0%. LBC is located in Des Moines, which will have a LOST effective July 1, 2019.
- The IRS 990 reports are organized by the tax year, or calendar year. These totals were divided evenly to allocate amounts by the State fiscal years.
- The IRS 990 report for LBC's listing of laboratory reagents includes both testing that LBC directly performs, and testing as a service that LBC procures from other vendors.

Fiscal Impact

The calendar year (CY) sales tax liability for 2019 for each nonprofit blood center is estimated in **Table 1**.

Table 1 — CY 2019 Estimated Tax Liability for Nonprofit Blood Centers

	<u>Mississippi Valley</u>	<u>LifeServe</u>	<u>Total</u>
Laboratory Reagents	Exempt	\$ 287,000	\$ 287,000
Blood Bags	\$ 0	214,000	214,000
Medical Supplies	271,000	131,000	402,000
Equipment Rental and Maintenance	66,000	34,000	100,000
Total	\$ 337,000	\$ 666,000	\$ 1,003,000

[Senate File 597](#) will reduce revenue to the General Fund, Secure an Advanced Vision for Education (SAVE) Fund, and LOST by the estimates presented in **Table 2**.

Table 2 — Estimated Revenue Reduction by Fund

	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Receipts	\$ -734,000	\$ -697,000	\$ -662,000	\$ -629,000
SAVE				
Receipts	\$ -147,000	\$ -139,000	\$ -132,000	\$ -126,000
LOST				
Receipts	\$ -147,000	\$ -139,000	\$ -132,000	\$ -126,000

Effective Date

This Act is effective July 1, 2019.

Enactment Date

This Act was approved by the General Assembly on April 26, 2019, and signed by the Governor on May 16, 2019.

Sources

IRS 990 forms for Mississippi Valley Regional Blood Center, 2014-2017

IRS 990 forms for LifeServe Blood Center, 2014-2017

Interviews with Mississippi Valley Regional Blood Center and LifeServe Blood Center

LSA analysis and calculations

[SF 617](#) – Sports Wagering (LSB2133SZ.2)

Analyst: Christin Mechler (515.250.0458) christin.mechler@legis.iowa.gov

Fiscal Note Version – Final Action

Description

[Senate File 617](#) authorizes sports gambling and wagering, including sports wagering and fantasy sports contests in the State of Iowa; provides for taxes and fees; and establishes penalties.

Division I

Division I of [SF 617](#) relates to the authorization and licensing of sports wagering. The Act defines “sports wagering” as the acceptance of wagers on an authorized sporting event by any system of wagering as authorized by the Iowa Racing and Gaming Commission (IRGC). An authorized sporting event includes a professional, collegiate, or international sporting event, or a professional motor race event. International sporting events include sporting events governed by both the International Olympic Committee (IOC) and the International Federation of Association Football (FIFA). Minor league sporting events, fantasy sports contests, dog and horse racing, and any athletic event or competition of an interscholastic sport as defined in statute are explicitly excluded from the definition of “authorized sporting event.” Sports wagering also excludes placing a wager on the performance or nonperformance of an individual athlete participating in a single game or match of a collegiate sporting event in which a collegiate team from this State is participating or placing a wager on the performance of athletes in an individual international sporting event governed by the IOC in which any participant is under the age of 18.

The IRGC is tasked with adopting rules, including emergency rules if necessary, and standards under which sports wagering may occur, including identifying the scope and type of wagers allowed, identifying occupations within sports wagering that require licensing, and adopting standards for licensing and background qualifications for occupations including establishing fees for an occupational license. The IRGC is also tasked with reviewing licensee reports on any criminal or disciplinary proceedings commenced against the licensee or its employees, and if necessary, utilizing audio and video data as investigative tools. The IRGC is required to report any information received regarding such activity to the Division of Criminal Investigation (DCI) of the Department of Public Safety (DPS), or any other appropriate law enforcement agency. Additionally, the IRGC must report such information to a sports team or sports governing body, so long as sharing the information does not hinder an ongoing criminal investigation. All revenue received by the IRGC from regulatory fees is deposited in the Gaming Regulatory Revolving Fund.

Under current Iowa law, individuals under the age of 21 are prohibited from participating in gaming activity but may work as employees of a licensed gaming entity at the age of 18. [Senate File 617](#) conforms sports wagering and Internet fantasy sports contest participant rules to current law. Additionally, [SF 617](#) provides that a qualified sponsoring organization (QSO) that holds a license to conduct gambling games and sports wagering will receive at least 0.75% of sports wagering net receipts, if applicable, to distribute for educational, civic, public, charitable, patriotic, or religious use. Under current law, QSOs are required to distribute at least 3.0% of adjusted gross receipts from gambling games for these purposes.

Division I of [SF 617](#) establishes an initial licensing fee and annual licensing renewal fee for any gaming entity wishing to conduct sports wagering. The Division allows a licensee to enter into operating agreements with one or two entities to have up to a total of two individually branded Internet sites to conduct advance deposit sports wagering for the licensee, unless one additional operating agreement or individually branded Internet site is approved by the IRGC. Division I requires a licensee to include the statewide telephone number authorized by the Iowa Department of Public Health (DPH) to provide problem gambling information to be listed on the advance deposit sports wagering Internet site or mobile application. An individual wishing to participate in advance deposit sports wagering may establish an account with a licensee. Until January 1, 2021, all such applications to establish an account must occur in person at a licensed gaming entity.

[Senate File 617](#) states that license fee revenue collected from entities wishing to conduct sports wagering will be deposited in the General Fund. The Act establishes an initial licensing fee of \$45,000 and an annual licensing renewal fee of \$10,000 for any gaming entity wishing to conduct sports wagering and advance deposit sports wagering on a telephone-type device or by any other electronic means. All licensees that have been granted a license to conduct sports wagering are required to take reasonable steps to prohibit coaches, athletic trainers, officials, players, or other individuals who participate in authorized sporting events subject to sports wagering from participating in such wagers. An unlicensed person taking or receiving sports wagers commits a Class D felony.

[Senate File 617](#) amends the definition of “adjusted gross receipts” to include gross receipts less winnings paid to wagerers on gambling games. “Sports wagering net receipts” is defined as gross receipts less winnings paid to wagerers on sports wagering. The Act establishes a 6.75% tax rate on net receipts and directs the tax revenue collected from sports wagering net receipts to be deposited in the Sports Wagering Receipts (SWR) Fund established in Division III of this Act. Licensees must submit tax payments to the Treasurer of the State within 10 days after the close of the day the wagers were made.

The Act also requires a licensee that conducts pari-mutuel dog or horse racing to use receipts from gambling games and sports wagering to supplement purses for races particularly for Iowa-bred horses pursuant to agreements between a licensee and representatives of dog or horse owners. Current law provides that agreements concerning purses for horse racing must provide that total annual purses for all horse racing must be no less than 11.0% of the first \$200.0 million net receipts, and 6.0% of net receipts above \$200.0 million. [Senate File 617](#) amends this provision to include 4.0% of sports wagering net receipts in supplementing total annual horse racing purses.

[Senate File 617](#) allows individuals to voluntarily exclude themselves from advance deposit wagering, from advance deposit sports wagering, and from the gaming floor and sports wagering area of a licensed gambling facility.

Division II

[Senate File 617](#) allows the addition of “fantasy sports contests” and “Internet fantasy sports contests” as legally recognized forms of wagering. “Fantasy sports contests” is defined as any fantasy or simulated games or contests in which the following apply:

- The fantasy sports contest operator is not a participant in the game or contest.
- The value of all prizes and awards offered are known to contest participants in advance.

- All winning outcomes reflect the relative knowledge and skill of participants and are determined by statistical results of the performance of individuals, including athletes in the case of sporting events.
- No winning outcome is based solely on the score, point spread, or any performance(s) of any single actual team or solely on any single performance of an individual athlete or player in any single actual event.
- Until May 1, 2020, “fantasy sports contest” does not include any fantasy or simulated game or contest in which any winning outcomes are based on statistical results from a collegiate sporting event. “Collegiate sporting event” means an athletic event or competition of an intercollegiate sport as defined in Iowa Code section [9A.102](#).

“Internet fantasy sports contest” is defined as a method of entering a fantasy sports contest by which a person may establish an account with an Internet fantasy sports contest service provider, deposit money into the account, and use the account balance for entering a fantasy sports contest by utilizing electronic communication. An Internet fantasy sports contest service provider means an individual, including a licensee under Iowa Code chapter [99D](#) or [99F](#), who conducts Internet fantasy sports contests.

[Senate File 617](#) also provides a definition for “bookmaking” as related to gambling activity. The Act defines “bookmaking” as advancing gambling activity by accepting bets upon the outcome of future contingent events as a business other than as permitted in Iowa Code chapters [99B](#), [99D](#), new chapter 99E, and [99F](#). Such events include the results of a trial or contest of skill, speed, power, or endurance of a person or beast or between persons, beasts, fowl, motor vehicles, or mechanical apparatus or upon result of any chance, casualty, unknown, or contingent event.

The Act grants the IRGC the authority to supervise and have full jurisdiction over all Internet fantasy sports contests and Internet fantasy sports contest service providers, including establishing rules. The IRGC is also tasked with reviewing licensee reports on any criminal or disciplinary proceedings commenced against the licensee or its employees. The IRGC is required to report any information received regarding such activity to the DCI of the DPS, or any other appropriate law enforcement agency. Additionally, the IRGC must report such information to a sports team or sports governing body, so long as sharing the information does not hinder an ongoing criminal investigation. All revenue received by the IRGC from regulatory fees is deposited in the Gaming Regulatory Revolving Fund. An applicant for an Internet fantasy sports contest service provider license who knowingly submits an application containing false statements commits an aggravated misdemeanor.

Division II of [SF 617](#) establishes an initial license fee of \$5,000 for any gaming entity wishing to conduct Internet fantasy sports contests. The initial license is valid for not more than three years, and a licensing renewal fee is also established. The IRGC may deny an application for a license based on criteria specified in the Act. A licensee may renew the license at a renewal fee of \$1,000 or, if the licensee collected Internet fantasy sports contest revenue greater than \$150,000 in the previous fiscal year, \$5,000. [Senate File 617](#) provides that Internet fantasy sports contest licensing fees will be deposited in the Gaming Regulatory Revolving Fund and are considered to be repayment receipts pursuant to Iowa Code section [8.2](#). Regulatory fees will also be deposited in the Gaming Regulatory Revolving Fund. A licensed Internet fantasy sports contest service provider will receive a credit for the amount of the licensing and regulatory fees paid by the service provider against the taxes to be paid as required by the Act.

[Senate File 617](#) also requires the IRGC to request a background check and requires fingerprints to be submitted to the Federal Bureau of Investigation by the DPS. The IRGC may charge a license applicant a fee set by the DCI of the DPS to recover costs related to fingerprints and background check requirements. If an additional investigation is required, the IRGC may charge the license applicant with the associated costs. These costs and fees will be deposited in the Gaming Enforcement Revolving Fund, are considered to be repayment receipts, and may be retained by the DCI.

Upon approval of a license application, an Internet fantasy sports contest service provider must meet the following requirements:

- Prevent employees of the Internet fantasy sports contest service provider and relatives living in the same household of such employees from competing in any Internet fantasy sports contest on the service provider's digital platform in which a cash prize is offered.
- Verify that participants in Internet fantasy sports contests in the State of Iowa are age 21 or over.
- Ensure that coaches, officials, players, contestants, or other participants in a contest that is the subject of an Internet fantasy sports contest are restricted from entering into an Internet fantasy sports contest in which the outcome is determined, in whole or part, by accumulated statistical results of a team of individuals in a game or contest in which they participate.
- Allow individuals to voluntarily restrict and exclude themselves from entering into an Internet fantasy sports contest upon request and with support from the Internet fantasy sports contest service provider.
- Allow individuals to establish an electronic account with an Internet fantasy sports contest service provider.
- Require the licensee to include the statewide telephone number authorized by the DPH to provide problem gambling information to be listed on the Internet fantasy sports contest service provider's Internet site or mobile application.
- Disclose the number of entries an individual Internet fantasy sports contest player may submit for each contest, and take reasonable steps to prevent players from submitting more than the allowable number of entries for a single contest.
- Segregate Internet fantasy sports contest player funds from operational funds, or maintain a reserve in the amount of the deposits in individual player accounts for the benefit and protection of Internet fantasy sports contest player funds.
- Conduct an annual audit.
- Pay the required tax.

The Act establishes a civil penalty for any individual who willfully fails to comply with the above requirements or any other rules established by the IRGC. The civil penalty charged totals \$1,000 per individual violation, but is not to exceed \$10,000 for violations arising out of the same transaction. Additionally, for violations relating to entering an Internet fantasy sports contest under the age of 21, a scheduled fine of \$500 is charged. Finally, the IRGC is authorized to revoke the license of any individual who fails to comply with new Iowa Code section 99E.4.

Division II of [SF 617](#) also establishes the definition of "Internet fantasy sports contest adjusted revenues" as the amount equal to the total charges and fees collected from all participants entering into an Internet fantasy sports contest less the winnings paid to participants in the contest, multiplied by a location percentage. The location percentage is defined as the percentage, rounded to the nearest tenth of a

percent, equal to the total charges and fees collected from all Internet fantasy sports contest players located in the State of Iowa divided by the total charges and fees collected from all participants in the Internet fantasy sports contest.

The Act establishes a 6.75% tax rate on Internet fantasy sports contest adjusted revenues. Tax revenue generated from Internet fantasy sports contests will be deposited into the SWR Fund created in Division III. Licensees must submit tax payments to the Treasurer of the State as determined by the IRGC.

[Senate File 617](#) allows individuals to voluntarily exclude themselves from Internet fantasy sports contests as defined in the Act, including from the gaming floor.

Division III

Division III of [Senate File 617](#) establishes a Sports Wagering Receipts (SWR) Fund under the authority of the Department of Management (DOM). Moneys in the SWR Fund are to be used as directed by the members of the General Assembly.

[Senate File 617](#) requires a State agency that receives an appropriation from the SWR Fund to provide a report on the status of all projects funded with the appropriation to the Legislative Services Agency (LSA) and the DOM on or before January 15 annually. The report must include a description of the project, the progress of work completed, the total estimated cost of the project, a list of all revenue sources being utilized to fund the project, the amount of funds expended and obligated, and the estimated or actual completion date of the project. Additionally, [SF 617](#) requires the recipient of funding from an appropriation to a State agency from the SWR Fund to provide a project progress report to the State agency on or before December 31 each year. The report is required to include a description of the project, the progress of the work completed, the total estimated cost of the project, a list of all revenue sources being used to fund the project, the amount of funds expended and obligated, and the estimated completion date or actual completion date of the project, as applicable. Additionally, any moneys appropriated from the SWR Fund to the County Endowment Fund under Iowa Code section [15E.311](#) that are distributed to eligible county recipients must be considered for grants, upon application, to a charitable organization that operates a racetrack facility that conducts automobile races in that county.

Background

The State of Iowa permits individuals 21 years of age or older to take part in gambling games and related activities. Each gambling licensee must collect debts owed to the State from persons participating in gambling activity. Under current law, a single occurrence win equal to or greater than \$1,200 is considered a taxable event and subject to outstanding debt collection. The amount of the debt constitutes a valid lien against the winnings of the person and is collected from the winnings. Each licensee is provided electronic access to the names of persons indebted to the State for purposes of this setoff procedure. The setoff procedure is conducted by the Department of Administrative Services (DAS). The DAS also charges a \$7 administrative fee for the setoff procedure. Delinquent debt and past due taxes are deposited in the General Fund in the fiscal year collected.

The IRGC currently regulates and supervises all gaming institutions in the State of Iowa, investigating any violations of current law or the Commission's rules. The IRGC also acts as the primary licensing entity for such institutions. Under [SF 617](#), the IRGC will have full jurisdiction over and will supervise sports wagering activity and sports wagering license holders, and Internet fantasy sports contests and Internet fantasy sports contest service providers. The IRGC will also establish administrative rules related to both sports wagering and Internet fantasy sports contests.

A Class D felony is punishable by confinement for no more than five years and a fine of at least \$750 but not more than \$7,500. In FY 2018, there were 22 convictions for violations under Iowa Code chapter [99F](#).

An aggravated misdemeanor is punishable by confinement for no more than two years and a fine of at least \$625 but no more than \$6,250.

Assumptions

Division I

- According to a 2017 study completed by Global Market Advisors, approximately 28.0% of all U.S. adults (individuals over the age of 18) participate in sports wagering.¹ [Senate File 617](#) only authorizes sports wagering to be available to individuals 21 years of age or older.
- Iowa has a population of approximately 3.16 million people. According to the most recent census data, 72.7% of Iowans are age 21 or over. Extrapolating this data leads to the assumption that approximately 2.3 million Iowans are eligible to participate in sports wagering.
- Using national data provided by Ernst and Young, an individual participant 18 years of age or older spends an annual average amount of approximately \$1,626 on sports wagering.² This estimate is based on the most recent data available and is adjusted for inflation.
- On average, 95.0% of a sports wagering handle (the total amount wagered by all participants) is paid out to winners. The remaining 5.0% of the handle is retained by the authorized sports wagering licensee and is subject to taxation.
- [Senate File 617](#) requires all tax revenue received from participation in sports wagering activity to be deposited in the SWR Fund.
- The IRGC will charge an initial fee of \$45,000 per license to conduct sports wagering. A licensee may renew the license at a renewal fee of \$10,000. These fees are deposited into the General Fund.
- The DPS charges a deposit fee to any company pursuing a gambling license in the State of Iowa. This deposit fee covers travel and accommodations for an investigator and may range up to \$5,000 depending on the location of the applicant. An authorized sports wagering licensee will be subject to the same investigation.

Correctional Impact

- [Senate File 617](#) establishes the willful failure to comply with the sports wagering requirements set forth in the Act as a Class D felony.
- The following will not change over the projection period: charge, conviction, and sentencing patterns and trends; prisoner length of stay; revocation rates; plea bargaining; and other criminal justice system policies and practices.

¹ Global Market Advisors, 2017. (hard copy report on file in LSA)

² www.americangaming.org/wp-content/uploads/2018/12/AGA-Oxford-Sports-Betting-Economic-Impact-Report1-1.pdf

- A lag effect of six months is assumed from the effective date of this Act to the date of first entry of affected offenders into the correctional system.
- Marginal costs for county jails cannot be estimated due to a lack of data. For purposes of this analysis, the marginal cost for county jails is assumed to be \$50 per day.

Division II

- Using national data provided by the Bloomberg Bureau of National Affairs, an individual participant 18 years of age or older spends an annual average amount of approximately \$333 on Internet fantasy sports contests. This estimate is based on the most recent data available and is adjusted for inflation.³
- Iowa has a population of approximately 3.16 million people. According to the most recent census data, 72.7% of Iowans are age 21 or over. Extrapolating this data leads to the assumption that approximately 2.3 million Iowans are eligible to participate in Internet fantasy sports contests.
- Total annual gross receipts as collected by an Internet fantasy sports contest service provider are comprised of all entry fees and charges collected annually. On average, 88.0% to 90.0% of this revenue is paid out as prizes and winnings. The remaining 10.0% to 12.0% of revenue is retained by the Internet fantasy sports contest service provider.
- Moneys that are held by the Internet fantasy sports contest service provider as winnings to contest participants will be adjusted by a location percentage (multiplier) based on the total number of Iowa residents participating in the Internet fantasy sports contest.
- The Act requires all tax revenue received from participation in Internet fantasy sports contests and adjusted by the location percentage to be deposited in the SWR Fund.
- The IRGC will charge an initial fee of \$5,000 per license to conduct Internet fantasy sports contests. The license is valid for an initial period of three years. A licensee may renew the license at a renewal fee of \$1,000 or, if the licensee collected Internet fantasy sports contest revenue greater than \$150,000 in the previous fiscal year, \$5,000.
- The DPS charges a deposit fee to any company pursuing a gambling license in the State of Iowa. This deposit fee covers travel and accommodations for an investigator and may range up to \$5,000 depending on the location of the applicant. An Internet fantasy sports contest service provider will be subject to the same investigation.

Correctional Impact

- [Senate File 617](#) establishes the willful failure to comply with the Internet fantasy sports contest service provider licensing requirements set forth in the Act as an aggravated misdemeanor.
- The following will not change over the projection period: charge, conviction, and sentencing patterns and trends; prisoner length of stay; revocation rates; plea bargaining; and other criminal justice system policies and practices.
- A lag effect of six months is assumed from the effective date of this Act to the date of first entry of affected offenders into the correctional system.

³ www.bna.com/extras-excise-four-b57982087887

- Marginal costs for county jails cannot be estimated due to a lack of data. For purposes of this analysis, the marginal cost for county jails is assumed to be \$50 per day.

Division III

[Senate File 617](#) establishes the SWR Fund under the control of the DOM. Moneys in the Fund shall be used as directed by the General Assembly.

Division III of the Act also adds new Iowa Code language to include a definition of “social fantasy sports contest” to mean any fantasy or simulated game or contest in which the following apply:

- The value of all prizes and awards offered are known to contest participants in advance and do not exceed a total of \$1,000 or equivalent consideration.
- All winning outcomes reflect the relative knowledge and skill of participants and are determined by the accumulated statistical results of the performance of individuals in events occurring over more than a 24-hour period, including athletes in the case of sporting events.
- No winning outcome is solely based on the score, point spread, or any performance(s) of any single actual team or solely on any single performance of an individual athlete or player in any single actual event.

A “social fantasy sports contest” does not include an Internet fantasy sports contest as defined in Division II of the Act.

Division III also provides that the board of directors of a QSO licensed to operate gambling games must be residents of Iowa and must include as ex officio, nonvoting members of the board, a member of the county board of supervisors and a member of the city council for each county and city that has a licensed gaming entity operated by the QSO. Ex officio members will serve the same length of term as a voting member of the board. Agencies, instrumentalities, and political subdivisions located in Iowa that are licensed to conduct gambling games are excluded from these requirements.

Summary of Impacts

Correctional Impact

The correctional impact of [SF 617](#) cannot be determined. The Act establishes a new criminal offense, and the number of convictions cannot be estimated. **Table 1** below shows estimates for sentencing to State prison, parole, probation, or community-based corrections (CBC) residential facilities; length of stay (LOS) under those supervisors; and supervision marginal costs per day for convictions of Class D felonies. Please refer to the LSA memo addressed to the General Assembly, [Correctional Impact Memo](#), dated January 8, 2019, for information related to the correctional system.

Table 1 — Sentencing Estimates and LOS

Conviction Offense Class	Percent to Prison	FY 18 Avg Length of Stay Prison (months)	FY 18 Marginal Cost/Day Prison	Percent to Probation	FY 18 Avg Length of Stay Probation (months)	FY 18 Avg Cost/Day Probation	Percent to CBC	FY 18 Marginal Cost/Day CBC	FY 18 Avg Length of Stay Parole (months)	FY 18 Marginal Cost/Day Parole	Percent to County Jail	Marginal Cost/Day
Class D Felony (Non-Persons)	75.0%	12.5	\$19.93	66.0%	32.7	\$5.38	13.0%	\$11.85	12.3	\$5.38	29.0%	\$50.00
Aggravated Misdemeanor (Non-Persons)	34.0%	6.7	\$19.93	53.0%	20	\$5.38	4.0%	\$11.85	5.9	\$5.38	68.0%	\$50.00

The fiscal impact associated with the newly established criminal offense and the resulting cost to the justice system cannot be estimated. **Table 2** shows estimates for the average State cost for a Class D felony. The estimates include operating costs incurred by the Judicial Branch, the State Public Defender, and the Department of Corrections for one additional conviction. The cost would be incurred across multiple fiscal years for prison and parole supervision.

Table 2 — Average State Cost Per Offense Type

Offense Class	Total Minimum Cost	Total Maximum Cost
Class D Felony (Non-Persons)	\$9,200	\$14,100
Aggravated Misdemeanor (Non-Persons)	\$4,700	\$7,500

It is likely that some revenue may be generated from the criminal fines associated with the conviction of a Class D felony or an aggravated misdemeanor, as mentioned in the Background section of this Fiscal Note, but such fiscal impact is expected to be minimal.

Minority Impact

The minority impact of [SF 617](#) is unknown. Refer to the LSA memo addressed to the General Assembly, [Minority Impact Statement](#), dated January 7, 2019, for information related to minorities in the criminal justice system.

Fiscal Impact

Iowa Racing and Gaming Commission

In order to fulfill the regulatory and licensing requirements established in [SF 617](#) for both sports wagering and Internet fantasy sports contests, the IRGC estimates that it will need to hire 3.0 additional full-time equivalent (FTE) positions to accommodate the increase in supervisory duties resulting from authorizing entities to participate in such gaming activity. The IRGC will need to hire one management

position to act as a public service executive, one auditor position, and one administrative assistant position. Cost estimates for these positions are displayed in **Table 3** below. Additionally, the IRGC states that it will likely see an increase in training costs.

Table 3 — Regulatory and Licensing Related Estimated Costs, IRGC

Position	FTEs	Cost
Management Position	1.0	\$ 200,000
Auditor	1.0	107,000
Administrative Assistant	1.0	85,000
	Subtotal	\$ 392,000
Existing Budget		-117,000
	Total	\$ 275,000

The IRGC estimates that \$117,000 is available in its existing budget to cover part of the total cost related to implementing [SF 617](#), including the increase in training costs. The IRGC estimates an increase in expenses for FY 2020 of \$275,000. The increase in expenses will be funded by IRGC Actings to the gaming industry. These Actings, or regulatory fees, are deposited in the Gaming Regulatory Revolving Fund.

Licensing Revenue

It is difficult to estimate the number of applicants that may attempt to obtain a sports wagering or Internet fantasy sports contest service provider license as a result of the authorization of such gaming activity by [SF 617](#). The IRGC estimates that all of the 19 gaming entities existing in Iowa will apply for a sports wagering license, and that approximately 5 to 15 licensees will apply to conduct Internet fantasy sports contests.

Should all 19 applicants be authorized to conduct sports wagering in the State of Iowa, a total of approximately \$855,000 (19 licenses at \$45,000 each) in initial licensing fees would be collected and deposited in the General Fund. Licensing renewal fees would be collected in future years at a total of \$5,000 per licensee. If 5 to 15 applicants are approved to conduct Internet fantasy sports contests in the State, a total of approximately \$25,000 to \$75,000 in licensing fees would be collected (5 to 15 licenses at \$5,000 each) and be deposited in the Gaming Regulatory Revolving Fund. Licensing renewal fees would be collected in future years at a total of \$1,000 per license, unless a licensee has collected over \$150,000 in Internet fantasy sports contests adjusted revenues in the previous year. In that case, the licensee would pay a renewal fee of \$5,000.

Department of Public Safety (DPS)

The DPS estimates that in order to fulfill the regulatory and investigative requirements set out in [SF 617](#) for both sports wagering and Internet fantasy sports contests, it would need to hire 5.0 additional FTE positions, including one special agent in charge, three special

agent 2s, and one financial analyst with accounting experience. Additionally, the DPS estimates that each special agent position would incur equipment costs of \$43,902 per position. The DPS also estimates that at least \$50,000 would need to be appropriated toward updating existing training procedures to accommodate changes to investigative procedures. The estimated costs of all positions and training are estimated to be \$718,000 (**Table 4**).

Table 4 — Regulatory and Investigation-Related Estimated Costs, DPS

Position	FTEs	Cost Per FTE	Equipment Cost	Total
Special Agent in Charge	1.0	\$ 126,755	\$ 43,902	\$ 170,657
Special Agent 2	3.0	\$ 91,974	\$ 131,706	\$ 407,628
Financial Analyst	1.0	\$ 90,000	—	\$ 90,000
Other				
Training Costs				\$ 50,000
			Total Cost	\$ 718,285

For FY 2020, the DPS estimates an increased need of funding from the Gaming Enforcement Revolving Fund to cover the expenses associated with [SF 617](#).

Department of Public Health (DPH)

As a result of the authorization of both sports wagering and Internet fantasy sports contests, the DPH estimates it will see an increase in gambling addiction treatment program admissions. For FY 2020, the DPH estimates an increase of 13 admissions to the Iowa Gambling Treatment Program, which reflects an increase of 50.0% in admissions compared to FY 2018. The DPH also states that it will need to update existing training materials, public service announcement campaigns, and the problem gambling survey to accommodate the addition of sports wagering and Internet fantasy sports contests as legal forms of gaming in Iowa. A summary of the costs arising out of these changes is displayed in **Table 5** below.

Table 5 — Treatment Program and Related Update Estimated Costs, DPH

FY 2020 Costs	Cost Per Admission	New Admissions (Est.)	Total Cost
Treatment Program	\$ 1,010	13	\$ 13,130
Training/Materials			\$ 10,000
Public Service Announcement Campaign Update			75,000
Internal Data System Update			30,000
Problem Gambling Survey Update			5,000
		Total	\$ 133,130

According to the DPH, these costs can be absorbed by its existing budget and will not have a fiscal impact on the State General Fund in FY 2020.

State Tax Revenue, Sports Wagering

Table 6 shows the estimated tax revenue resulting from authorizing sports wagering in the State of Iowa, based on percentages of potential participation.

Table 6 — State Tax Revenue Estimates, Sports Wagering

Total Eligible Population Participation Assumption	Total Players	Average Amount Wagered Annually	Total Wagered	5.0% Payout (Casino Revenue)	Tax Rate	Tax Revenue to SWR Fund
5.0%	114,726	\$ 1,626	\$ 186,544,476	\$ 9,327,224	6.75%	\$ 629,588
7.0%	160,616	\$ 1,626	\$ 261,161,616	\$ 13,058,081	6.75%	\$ 881,420
10.0%	229,452	\$ 1,626	\$ 373,088,952	\$ 18,654,448	6.75%	\$ 1,259,175
12.0%	275,342	\$ 1,626	\$ 447,706,092	\$ 22,385,305	6.75%	\$ 1,511,008
15.0%	344,178	\$ 1,626	\$ 559,633,428	\$ 27,981,671	6.75%	\$ 1,888,763

SWR = Sports Wagering Receipts

The revenue estimate includes the 6.75% gaming revenue tax rate established in [SF 617](#). Depending on the level of participation, the estimated tax revenue generated from sports wagering will range from \$630,000 to \$1.8 million. These funds will be deposited into the SWR Fund.

Additionally, licensed gaming entities that offer sports wagering are required to pay a federal excise tax of 0.25%. **Table 7** below shows the amount of excise tax that would be paid based on the above participation rates. It should be noted that the excise tax would be applied to the entire amount of casino or gaming entity revenue.

Table 7 — Estimated Excise Tax Calculations, Sports Wagering

Total Eligible Population Participation Assumption	Total Handle	Federal Excise Tax	Payment to Federal Government
5.0%	\$ 186,544,476	0.25%	\$ 466,361
7.0%	\$ 261,161,616	0.25%	\$ 652,904
10.0%	\$ 373,088,952	0.25%	\$ 932,722
12.0%	\$ 447,706,092	0.25%	\$ 1,119,265
15.0%	\$ 559,633,428	0.25%	\$ 1,399,084

State Tax Revenue, Internet Fantasy Sports Contests

Table 8 displays potential tax revenue estimates resulting from authorizing Internet fantasy sports contests in the State of Iowa, based on percentages of potential participation. Please note that the data in **Table 8** has already been adjusted by the location multiplier as is required in Division II of [SF 617](#). The location multiplier is incorporated into the participation percentage assumptions listed in **Table 8**.

Table 8 — State Tax Revenue Estimates, Internet Fantasy Sports Contests

Total Eligible Population Participation Assumption	Total Participants	Average Annual Entry Fee Per Contest	Total Entry Fees Collected	Total Taxable Amount	Tax Rate	Tax Revenue to SWR Fund
5.0%	114,726	\$333	\$ 38,203,758	\$ 3,820,376	6.75%	\$257,875
7.0%	160,616	\$333	\$ 53,485,128	\$ 5,348,513	6.75%	\$361,025
10.0%	229,452	\$333	\$ 76,407,516	\$ 7,640,752	6.75%	\$515,751
12.0%	275,342	\$333	\$ 91,688,886	\$ 9,168,889	6.75%	\$618,900
15.0%	344,178	\$333	\$ 114,611,274	\$ 11,461,127	6.75%	\$773,626

SWR = Sports Wagering Receipts

The revenue estimate includes the 6.75% gaming revenue tax rate established in [SF 617](#). Depending on the level of participation, the estimated tax revenue generated for Internet fantasy sports contests will range from \$258,000 to \$774,000. These funds will be deposited into the SWR Fund.

Table 9 — Summary of [SF 617](#) State Tax Revenue Estimates

	Sports Wagering		Fantasy Sports		License Fees		Total Revenue	
	Low	High	Low	High	Low	High	Low	High
SWR Fund	\$ 630,000	\$ 1,800,000	\$ 258,000	\$ 774,000	\$ 0	\$ 0	\$ 888,000	\$ 2,574,000
General Fund	0	0	0	0	855,000	855,000	855,000	855,000
Gaming Regulatory Revolving Fund	0	0	0	0	25,000	75,000	25,000	75,000
Total Revenue	\$ 630,000	\$ 1,800,000	\$ 258,000	\$ 774,000	\$ 880,000	\$ 930,000	\$ 1,768,000	\$ 3,504,000

The fiscal impact of [SF 617](#) may range from \$1.8 million to \$3.5 million annually. **Table 9** displays the revenue impact on the SWR Fund and the Gaming Regulatory Revolving Fund. Note that the tax revenue generated from Internet fantasy sports contests will be reduced by the tax credit an entity receives for licensing and regulatory fees. However, the amount of the tax credit cannot be estimated at this time.

Offset Revenue

Several factors must be considered to estimate potential General Fund revenue resulting from DAS setoff procedures. Beginning in FY 2020, participants in sports wagering and Internet fantasy sports contests who attempt to draw winnings of \$1,200 or more out of the individual's electronic account would be eligible to be referenced against the existing database of names of individuals who owe the State of Iowa money for various reasons, including unpaid income tax, child support, or other State debts. Should a participant owe a debt to the State, the total amount owed would be withdrawn from any winnings prior to any payout. Moneys collected through this setoff procedure are deposited into the General Fund. According to the DAS, it is not possible to estimate the fiscal impact of revenue collected from offset procedures as a result of authorizing sports wagering and Internet fantasy sports contests.

Effective Date

This Act is effective July 1, 2019 except for Divisions I and II which are effective May 13, 2019, as is the section of Division III amending Iowa Code section [8.57](#).

Enactment Date

This Act was approved by the General Assembly on April 22, 2019, and signed by the Governor on May 13, 2019.

Sources

Iowa Racing and Gaming Commission, Department of Inspections and Appeals
Division of Criminal and Juvenile Justice Planning, Department of Human Rights
Department of Revenue
Department of Public Safety
Department of Administrative Services
Department of Public Health
LSA analysis and calculations

[SF 634](#) – City and County Property Tax Revenue Limitation (LSB2777SV.3)

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Fiscal Note Version – Final Action – Revised

Description

[Senate File 634](#) imposes additional limits on the amount of property tax revenue cities and counties may include in their budget, beginning with FY 2021. The Act also moves the annual certification deadline for city and county budgets from March 15 to March 31.

City Budgeting

The Act limits the amount of property tax dollars that may be levied for the upcoming budget year to no more than 102.0% of the amount levied in the current fiscal year if the budget is approved by a simple majority vote of the city council. If a city council approves an amount of taxes to be levied for the specified purposes that exceeds 102.0% of the amount raised in the current fiscal year, the vote must be by a two-thirds majority of the council.

For the purposes of the limit, property tax replacement taxes collected through Iowa Code chapter [437A](#) (gas and electric utilities) and [437B](#) (water utilities) are also included in the calculation. Property taxes levied on agricultural property within a city are not included in the calculation. The limit does not apply to any voter-approved city levy established under Iowa Code section [384.12](#)(19). Specifically, the limit applies to tax revenue raised through the following existing tax authorities of cities:

- City general fund (Iowa Code section [384.1](#))
- Employee pension and benefits (trust and agency, Iowa Code section [384.6](#))
- Emergency fund (Iowa Code section [384.8](#))
- City bridge contract (Iowa Code section [384.12](#)(8))
- Municipal transit (Iowa Code section [384.12](#)(10))
- Civic center lease (Iowa Code section [384.12](#)(11))
- Civic center operations (Iowa Code section [384.12](#)(12))
- Sanitary disposal project (Iowa Code section [384.12](#)(13))
- City insurance (Iowa Code section [384.12](#)(17))

County Budgeting

The Act limits the amount of property tax dollars that may be levied for the upcoming budget year to no more than 102.0% of the amount levied in the current fiscal year if the budget is approved by a simple majority vote of a board of supervisors. The limit applies and is calculated separately for county general purposes and county rural purposes. If a board of supervisors approves an amount of taxes to be

levied for the specified purposes that exceeds 102.0% of the amount raised in the current fiscal year, the vote must be by a two-thirds majority of the board.

For the purposes of the limit, property tax replacement taxes collected through Iowa Code chapter [437A](#) (gas and electric utilities) and [437B](#) (water utilities) are also included in the calculation. The limit does not apply to any voter-approved county levy established under Iowa Code section [331.425](#). Specifically, the limit applies to tax revenue raised through the following existing tax authorities of counties:

- Basic general county services (Iowa Code section [331.423\(1\)](#))
- Supplemental general county services (Iowa Code section [331.424\(1\)](#))
- Basic rural county services (Iowa Code section [331.423\(2\)](#))
- Supplemental rural county services (Iowa Code section [331.424\(2\)](#))
- Additions to basic county general or rural services (Iowa Code section [331.426](#))

Appraisal Manual

The Act requires county and city assessors to use the most recent state appraisal manual available within two years of it becoming available. Upon request, the Department of Revenue may allow an extension of up to two additional years to comply with this requirement.

Background — FY 2019 City Property Tax Rate Components

For FY 2019, the average city property tax rate in Iowa was \$13.82 per \$1,000 of taxed property value. **Table 1** provides a statewide breakdown of that average rate. The Act applies to many, but not all, of the levy categories in **Table 1**. The levies for debt service and capital improvements are not included within the revenue limits established in the Act. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

Table 1
FY 2019 City Levy Breakdown

Property Value and Tax Collections in Millions of Dollars

<u>City Levy</u>	<u>Property Tax Collections</u>	<u>Statewide Average City Tax Rate \$ per \$1,000</u>
General Levy (\$8.10)	\$ 775.1	\$ 7.76
General Levy Additional	75.7	0.76
Emergency Levies	9.1	0.09
Debt Levies	237.0	2.37
Trust and Agency Levies	281.9	2.82
Capital Improvement Levies	1.5	0.02
Total	\$ 1,380.3	\$ 13.82
City Property Tax from Ag Property	\$ 1.5	\$ 2.89
TIF Increment Revenue to Cities *	\$ 21.5	
Statewide Taxable City Regular Value	\$ 99,845.9	
Statewide Taxable City Ag Value	\$ 509.5	

*Does not include Tax Increment Financing (TIF) revenue that finances TIF.

Background — FY 2019 County General Services Property Tax Rate Components

For FY 2019, the average county general services property tax rate was \$6.21 per \$1,000 of taxed property value. **Table 2** provides a statewide breakdown of that rate. The Act combines the revenue raised in the first three items in **Table 2**. The County Mental Health levy and Debt Service levy are not included within the revenue limits established in the Act. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

Table 2
FY 2019 County General Fund Levy Breakdown

Property Value and Tax Collections in Millions of Dollars

<u>County Levy</u>	<u>Property Tax Collections</u>	<u>Statewide Average County General Rate \$ per \$1,000</u>
General Basic Levy (\$3.50)	\$ 598.8	\$ 3.57
General Supplemental Levy	286.1	1.70
Cemetery Levy	0.3	0.00
County Mental Health Levy	72.8	0.43
<u>Debt Service Levy</u>	<u>86.3</u>	<u>0.51</u>
Total	\$ 1,044.3	\$ 6.21
TIF Increment Revenue to Counties *	\$ 6.7	
Statewide Taxable County Value	\$ 167,872.4	

*Does not include Tax Increment Financing (TIF) revenue that finances TIF.

Background — FY 2019 County Rural Services Property Tax Rate Components

For FY 2019, the average Iowa county rural services property tax rate was \$3.32 per \$1,000 of taxed property value. **Table 3** provides a statewide breakdown of that rate. The Act combines the revenue raised in the first two items in **Table 3**. The levy for Unified Law Enforcement is not included within the revenue limits established in the Act. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

Table 3
FY 2019 County Rural Fund Levy Breakdown

Property Value and Tax Collections in Millions of Dollars

County Rural Levy	Property Tax Collections	Statewide Average County Rural Rate \$ per \$1,000
Rural Basic Levy (\$3.95)	\$ 220.5	\$ 3.27
Rural Supplemental Levy	2.6	0.04
Unified Law Enforcement Levy	0.5	0.01
Total	\$ 223.6	\$ 3.32
Statewide Taxable County Rural Value	\$ 67,464.0	

Background — Property Tax Revenue Limitation

A discussion of the 18-year history of city and county property tax is presented in the [Fiscal Note](#) for [HF 773](#) (City and County Property Revenue Tax Limitation Act), and that discussion is incorporated here by reference. The portions of the **Fiscal Note** for HF 773 that discuss city and county ending fund balances do not apply to this Act, as this Act does not limit city and county ending fund balances.

The statistics presented in the [Fiscal Note](#) for [HF 773](#) may be summarized as follows:

- Over the past 18 years, the average annual rate of growth for property tax revenue has been:
 - Cities = 4.1%
 - County general services = 4.2%
 - County rural services = 3.7%
- Property tax revenue increases and decreases are due to two factors: changes in the tax base and changes to the tax rate. Over the past 18 years, the average annual rate of growth in tax rates equaled:
 - Cities = 0.4%
 - County general services = 0.8%
 - County rural services = 0.8%
- Changes to the tax base may be summarized in two broad categories, namely the revaluation of existing property and nonrevaluation changes (for the most part this means new construction). The average annual change in nonrevaluation over the past 18 years equals:
 - Cities = 2.4%
 - County general services = 2.1%

- County rural services = 1.5%
- Revaluation changes to taxable value result from the revaluation of existing property, modified by Iowa's system of value rollbacks. The average annual change in rollback-modified revaluation over the past 18 years equals:
 - Cities = 1.3%
 - County general services = 1.3%
 - County rural services = 1.5%
- The rate of growth in revaluation was not consistent across the past 18 years.
 - For the first eight years, revaluation was dominated by low and negative growth in agricultural taxable value, combined with low growth in taxable value of residential property. The low residential taxable value growth was due to the residential rollback's tie to the taxable value of agricultural property.
 - The next 10 years witnessed the return of growth in taxable value of agricultural property, and that allowed residential taxable value to also increase.
- The increase in property tax rates over the past 18 years occurred during the initial eight years of slow growth in taxable value. Over the most recent 10 years, the average city and county general rates have fallen, and the average county rural rate is little changed.

Fiscal Impact

The Act allows city and county property tax revenue for the specified purposes to increase by up to 2.0% per year through a majority vote of the governing body, and the Act allows cities and counties to exceed 2.0% property tax revenue growth by a two-thirds vote of the governing body. The Act does not remove current tax rate limitations, so all decisions of governing bodies must also comply with existing limits on allowed maximum tax rates.

A 2.0% annual limit on the property tax revenue increases, that a simple majority of a city council or county board of supervisors may approve, has the potential to limit property tax growth in upcoming years. Over the past 18 years, city property tax revenue has increased by an average of 4.1% per year. For county general and county rural property taxes, growth has averaged 4.2% and 3.7%, respectively. This historical review is based on statewide totals for cities and counties (the composite result of more than 900 cities and 99 counties). In addition, the Act applies to the future and an historical analysis may provide minimal insight into what will happen in future years.

Effective Date

This Act is generally effective July 1, 2019. The changes apply to city and county budgets and taxes for FY 2021 and after.

Enactment Date

This Act was approved by the General Assembly on April 24, 2019, and signed by the Governor on May 23, 2019.

Sources

Department of Management property tax files

Department of Revenue property valuation reports

Legislative Services Agency analysis

[**Fiscal Note**](#) for [**HF 773**](#) (City and County Property Tax Revenue Limitation Act)