Ways and Means Acts – Fiscal Notes

HF 367 – Preneed Burial Trusts, Income Tax Exemption (LSB2041HV.2)
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Fiscal Note Version – Final Action

Description

House File 367 exempts the interest and earnings received from investments in certain irrevocable burial trust funds from the State income tax. The change is effective retroactive to January 1, 2021 (tax year 2021).

Background

As provided in Iowa Code section 523A.102(4), a burial trust fund is an irrevocable trust fund established by a person with a financial institution for the purpose of funding the future purchase of cemetery merchandise, funeral merchandise, funeral services, or a combination thereof upon the death of the person named in the burial trust fund's records or a related purchase agreement.

While insurance-based versions of the irrevocable burial trust exist that do not produce taxable income for the purchaser, interest and investment earnings on the balance of the "grantor trust" version are taxable income under federal law and therefore taxable income under current Iowa law.

If the value of a customer's trust account exceeds the actual cost of the funeral, burial, and related expenses, any excess funds are delivered to relatives or the estate as provided in Iowa Code section 523A.303 (Disbursement of Remaining Funds) subject first to possible recovery of payments as provided in Iowa Code section 249A.53 (Medical Assistance Recovery).

Assumptions

Based on correspondence with the Insurance Division, the Department of Revenue estimates that the total balance in all Iowa irrevocable burial trust funds at the beginning of calendar year 2014 was $179.9 million. Statewide balance information for subsequent fiscal years is not available and therefore must be estimated. The tax exemption applies to calendar year 2021 and after. To estimate the 2020 ending balance in all Iowa irrevocable burial trust funds that will be the subject of the investment income tax exemption provided in this Act, the following assumptions are used:

- Only a portion of the $179.9 million in irrevocable burial trust fund balances would be subject to the exemption provided in this Act, as some trust accounts are taxed at the trust level (Qualified Funeral Trusts, or QFT). For this projection it is assumed that two-thirds of the 2014 beginning balances ($119.9 million) are not QFT.
- Over the course of the seven intervening years between December 2013 and December 2020, balances in the funds are assumed to be invested 75.0% in AAA-rated corporate bonds and 25.0% in equities.
- To estimate the amount of income earned on the balances for each calendar year, online calculators found at dqydj.com were utilized to determine the total return earned in a year from corporate bonds and the S&P 500. Total return includes reinvestment of interest and dividend earnings.

- The annual total return percent for each calendar year for AAA-rated corporate bonds (weighted 75.0%) and equities (weighted 25.0%) were used as the estimated investment income for each year and added to fund balances for the calendar year.
- A management charge equal to 1.75% of the beginning balance is assumed to be removed from the investment earnings and the fund balances each calendar year.
- For all years, investments by new customers in irrevocable burial trusts are assumed to equal withdrawal amounts that are the result of the deaths of existing customers.
- The above assumptions result in a total balance of $183.7 million in irrevocable burial trust funds that are subject to the investment income exemption provided in this Act.

Information is not available related to the total amount of investment income reported as taxable income from irrevocable trusts for State and federal tax purposes; therefore, the rate of return on annual fund balances must be estimated. To estimate the amount of investment income earned on the irrevocable burial trusts impacted by this Act, the following assumptions are used:

- Fund balances are assumed to be invested in 75.0% AAA-rated corporate bonds and 25.0% equities.
- The annual return on the AAA-rated corporate bond portion of the portfolio for each calendar year is assumed to equal the average annual return on AAA-rated corporate bonds for the 20-year period of December 2000 through December 2020, as calculated at dqydj.com (5.5%).
- The annual return on the equity portion of the portfolio for each calendar year is assumed to equal the average annual return on the S&P 500 for the 20-year period of December 2000 through December 2020, as calculated at dqydj.com (7.3%).
- The combination of the previous two assumptions results in an annual investment income return of 4.2%.
- A management charge equal to 1.75% of the beginning balance is assumed to be removed from the investment earnings and the fund balances each calendar year.
- The amount of annual investment income reported to taxpayers as taxable income for Iowa and federal income tax purposes is projected to equal the investment income earned each year minus the assumed annual 1.75% management charge.

For a portion of purchasers, irrevocable burial trusts are a mechanism used to shelter sufficient assets to cover funeral costs from Medicaid eligibility requirements. Therefore, the average Iowa income tax rate used in this income tax exemption projection is assumed to be low (3.125%).

The tax reduction associated with this new income tax exemption is assumed to occur when tax returns are filed (decreased final tax payments and increased tax refunds).

Fiscal Impact

The investment income tax exemption for income earned from a burial trust that would otherwise be taxable income is projected to reduce net General Fund revenue by $0.2 million in FY 2022 and $0.3 million in FY 2023. The revenue reduction is projected to remain at or near the $0.3 million level for future years.

Effective Date

This Act is effective July 1, 2021, and applies retroactively to January 1, 2021, for tax years beginning on or after that date.

Enactment Date

This Act was approved by the General Assembly on May 19, 2021, and signed by the Governor on June 8, 2021.

Sources

Department of Revenue
Insurance Division
dqydj.com (historical investment return calculations)
LSA calculations

HF 588 – Hoover Presidential Library Tax Credit (LSB1352HV.2)
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Fiscal Note Version – Final Action

Description

House File 588 creates a Hoover Presidential Library Tax Credit. The new income tax credit is available to Iowa taxpayers who donate to the Hoover Presidential Library and Museum Renovation Project Fund. The tax credit equals 25.0% of the donated amount. The total amount of tax credits awarded is limited to $5.0 million in aggregate. The maximum credit a taxpayer may earn is $250,000. Any donation to the Fund that earns a credit may not be used as an itemized deduction for Iowa income tax purposes.

The credit is applicable to individual, corporate, franchise, insurance premium, and moneys and credits taxes. The credit is not refundable or transferable. The credit is available for tax years 2021 through 2023, or until the full $5.0 million has been awarded. Unused credits may be carried forward for up to five additional tax years.

Assumptions

- Sufficient demand exists to fully utilize the $5.0 million aggregate award amount during the first tax year available (tax year 2021).
- Tax credits awarded for tax year 2021 will first impact FY 2022.
- The tax credit redemption pattern for the Hoover Presidential Library Tax Credit will be similar to the redemption pattern for the Endow Iowa Tax Credit. The Department of Revenue reports that the redemption pattern for the Endow Iowa Tax Credit is:
  - Year one = 43.0%
  - Year two = 31.0%
  - Year three = 5.0%
  - Year four = 3.0%
  - Year five = 1.5%
  - Year six = 1.5%
  - Expiring without redemption = 15.0%
- As a tax credit that is not refundable, the new tax credit will impact the calculation of any local option income surtax. Surtaxes are estimated to average 3.0% of State income tax liability.

Fiscal Impact

The new Hoover Presidential Library Tax Credit is projected to reduce General Fund revenue by the amounts in the following table.

Projected Net General Fund Revenue Change
In Millions

	Amount
FY 2022	$ -2.2
FY 2023	-1.6
FY 2024	-0.3
FY 2025	-0.2
FY 2026	-0.1
FY 2027	-0.1

The new tax credit is also projected to reduce the amount of revenue raised by any local option income surtax. The reduction over six fiscal years is estimated to be $135,000.

The Department of Revenue estimates that the new tax credit will result in $90,000 in expenditures for administrative rulemaking, computer programming, and tax form updates.

Effective Date

This Act is effective July 1, 2021.

Enactment Date

This Act was approved by the General Assembly on April 21, 2021, and signed by the Governor on June 10, 2021.

Sources

Hoover Presidential Foundation
Department of Revenue

HF 711 – Probate Fees (LSB1242HZ.2)
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Fiscal Note Version – Final Action

Description

House File 711 relates to the court costs that the clerk of probate court charges and collects in connection with probate matters. The Act requires the clerk of court to charge and collect court costs based on the probate assets listed in the report and inventory for services performed in a decedent's estate administered by Iowa Code chapter 633 or 635. The court costs charged on the value of those assets are 0.2% of the value of the probate assets. In addition, the Act excludes all nonprobate assets from the calculation of court costs.

House File 711 also provides that court costs will not be charged or collected on assets transferred to an estate from a conservatorship that had been administered in the State and for which court costs have previously been charged and collected in the conservatorship. For services performed in a conservatorship, the clerk shall charge and collect court costs based on the gross value of the assets listed in the inventory minus the value of the life insurance. The Act provides that the court costs charged on the value of those assets shall be 0.2% of the value of the assets.

House File 711 takes effect January 1, 2022. The Act applies to conservatorships, court-administered trusts, guardianships, and estates of decedents for which the petition is filed and other probate matters in which filings are made and actions are taken on and after January 1, 2022.

Background

Under current law, Iowa Code section 633.31(2)(k) provides a sliding scale fee for services performed in connection with the settlement of an estate based upon the value of the estate. The probate fees collected by clerks of court are deposited in the State General Fund pursuant to Iowa Code section 602.8108. In FY 2020, the revenue from fees on estate values under Iowa Code section 633.31(2)(k) was $11.8 million. Currently, the value of the assets may include both probate and nonprobate assets for the purpose of calculating court costs.

Assumptions

- The removal of nonprobate assets will reduce the overall estate value subject to fees pursuant to Iowa Code section 633.31(2)(k) by at least 50.0%, reducing revenue by 50.0%.
- From FY 2015 to FY 2020, the revenue from fees charged pursuant to Iowa Code section 633.31(2)(k) decreased by a total of 7.9%, an average decline of 1.6% per year. In
  FY 2020, $11.8 million was collected in fees on the estate value. This analysis assumes revenues will decline by 1.6% each year starting in FY 2021. The estimated FY 2021 probate fee revenue is $11.6 million.

- The current fee on estate values in Iowa Code section 633.31(2)(k) equals $50 for each $25,000 in applicable estate values, or 0.002%. The estimated estate value required to produce the probate fee revenue is the actual or estimated fees collected divided by 0.002.

Fiscal Impact

House File 711 is estimated to reduce fee revenue to the General Fund by the amounts listed in the following table beginning FY 2022 through FY 2024.

HF 711 — Estimated Change in Probate Fee Revenue

State General Fund

	FY 2022	FY 2023	FY 2024
HF 711	$ 8,610,000	$ 5,664,000	$ 5,574,000
Current Law	11,480,000	11,327,000	11,148,000
Estimated Reduction	$ -2,870,000	$ -5,663,000	$ -5,574,000

It is important to note that in recent years many probate attorneys have been filing motions in estate cases to exclude most or all the types of assets that this Act will remove from the calculation of the estate value subject to probate fees. Some of the motions have been granted, but not all. Depending on how judges continue to rule on these motions going forward, the revenue reduction to the General Fund may be less than initially estimated.

Effective Date

This Act takes effect on January 1, 2022.

Enactment Date

This Act was approved by the General Assembly on May 17, 2021, and signed by the Governor on June 8, 2021.

Sources

Judicial Branch
LSA analysis

HF 828 – Commercial Driver's Licenses, Testing Fees (LSB1747HZ.3)
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Fiscal Note Version – Final Action

Description

House File 828 assesses fees for the driving skills testing required to obtain a Commercial Driver's License (CDL). This Act allows the Department of Transportation (DOT) to charge a $25 fee to schedule the pre-trip inspection test. This Act also allows counties that provide CDL testing to charge $25 for each of the three driving skills tests required for the issuance of a CDL. These fees are nonrefundable, and fees collected by the DOT are allocated to the Statutory Allocations Fund, while the fees collected from counties are deposited in that county's general fund. The fees assessed in this Act do not apply to any third party that offers driving skills testing for a CDL. If a person is employed by or volunteers for a government entity, they would only pay for the pre-trip vehicle inspection portion of the test if they take the test at a county facility, and would pay no fees if they test at a DOT facility.

Background

Prior to being able to take a CDL skills test, a person must obtain a Commercial Learner's Permit (CLP) by passing the CDL knowledge test. A CDL skills test involves three sections of testing including pre-trip vehicle inspection, basic control skills, and road driving. Each portion of the test is estimated to take 30 minutes to complete, creating a 90-minute testing slot. The DOT and county treasurer offices require the person taking the test to provide the vehicle used in testing. Currently there are 15 third parties authorized to administer CDL skills tests in Iowa.

2020 Iowa Acts, chapter 41, instructed the DOT to conduct a study on the driving skills tests required to obtain a CDL, and evaluate and recommend testing options to increase access to tests across the State. The study identified 26 other states that assess fees for CDL skills testing. The DOT study can be found here.

Assumptions

- Approximately 8,100 CDL tests are conducted annually by the State and 2,200 by counties.
- The DOT will charge $25 for each pre-trip inspection test.
- Counties will charge $25 for each of the three tests required to receive a CDL.

Fiscal Impact

If all persons who take the CDL driving skills tests pass each component on their first attempt, the fees introduced in this Act will result in an estimated increase of $203,000 to the Statutory Allocations Fund and $165,000 to county general funds annually. While there will be some people seeking the issuance of a CDL who pay reduced or no fees for working with a government entity, it is unknown how many would be exempt. As such, those exemptions are not included in this estimate.

Effective Date

This Act is effective January 1, 2022.

Enactment Date

This Act was approved by the General Assembly on April 28, 2021, and signed by the Governor on May 20, 2021.

Sources

Legislative Services Agency
Department of Transportation

HF 847 – Education Programs, Tax Credits, and Information (LSB2474HZ.4)
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Fiscal Note Version – Final Action

Description

House File 847 makes a variety of changes to the Iowa Code regarding education. A brief description by division is below, and the following pages include assumptions and fiscal impact where it can be estimated.

DIVISION I — Education Program Standards and Funding: Creates a flexible student and school support program to be administered by the Department of Education (DE), allows for an additional categorical source to be eligible for use within the school district flexibility account, and directs school districts and area education agencies (AEAs) to expend unobligated funds from the teacher salary supplement in FY 2022.

DIVISION II — Education Tax Credits and Deductions: Increases the annual amount of classroom expenditures that Iowa elementary and secondary school teachers may deduct from gross income for income tax purposes from the current $250 to $500. Also expands the Tuition and Textbook Tax Credit by doubling the allowed expense amount to $2,000 per qualified student and extending the credit to students educated through private instruction.

DIVISION III — Open Enrollment: Modifies several provisions relating to open enrollment and athletic eligibility including:
- Amending rules for participation in extracurricular activities.
- Designating a deadline for prekindergarten students enrolled in special education programs and adding additional good cause provisions to open enrollment for such students after the deadline.
- Expanding the good cause definition to include students who attend attendance centers identified as in significant need of improvement and defining such attendance centers.
- Providing an opportunity for an additional appeal to the State Board of Education for a late open enrollment application that does not meet the definition of good cause for a student whose resident district consistently failed to respond reasonably to a student’s academic failure to meet basic academic standards.
- Clarifying language regarding the resident district responsibility for paying open enrollment tuition.
- Establishing minimum standards of economic eligibility requirements for transportation assistance of open enrolled students.
- Adding to the list of circumstances in which an open enrolled student may immediately participate in varsity athletics.

DIVISION IV — School Board Powers and Duties: Clarifies school board member responsibilities.

DIVISION V — Shared Operational Functions: Adds a work-based learning (WBL) coordinator and special education director to the list of eligible operational functions and positions eligible for supplementary weighting funding from FY 2023 through FY 2025. Additional provisions of the Act reduce the weighting for all positions generating a weighting of five to four, and reduce the weighting for all positions generating a weighting of three to two.

DIVISION VI — Pledge of Allegiance: Provides that the board of directors of each public school district will administer the pledge of allegiance in grades 1 through 12 each school day and that each classroom will display the United States flag in each classroom where the pledge is recited. A student will not be required to recite the pledge.

DIVISION VII — Facial Covering Policies — Counties, Cities, and Schools: Prohibits a school district, school administrator, or authority of a nonpublic school to adopt, enforce, or implement a policy requiring employees, students, or members of the public to wear a facial covering while on the school district's or accredited nonpublic school's property unless for a specific extracurricular or instructional purpose. Prohibits a county from adopting an ordinance, motion, resolution, or amendment, or use any other means to require the owner of real property to implement a policy regarding facial coverings that is more stringent than a policy imposed by the State. Prohibits a city from adopting an ordinance, motion, resolution, or amendment, or use any other means to require the owner of a real property to implement a policy regarding facial coverings that is more stringent than a policy imposed by the State.

DIVISION VIII — School Tuition Organization Tax Credit: Raises the deduction allowed for contributions made by a taxpayer to a School Tuition Organization Tax Credit (STO) from 65.0% to 75.0% and raises the STO cap from $15.0 million to $20.0 million beginning January 1, 2022.

DIVISION IX — Charter Schools: Subjects the governing board of a charter school to Iowa Code chapter 22 open records regulations. Requires the chief administrator of a charter school to hold a valid State administrator license, a valid teacher license, or a newly established charter school administrator license. Requires a charter school to notify the public school district of a student enrolled in a charter school by March 1 of the school year preceding the school year of enrollment. Requires the charter school to submit an annual report to the State Board of Education to support the evaluation of the charter school's performance and compliance with the performance framework.

Division I

Background

Education Program Standards and Funding — School districts and nonpublic schools are currently allowed to waive high school offer and teach requirements by applying for and receiving an innovative waiver available in Iowa Code section 256.11. The Flexible Student and School Support Program (FS3) would allow the waiver of offer and teach requirements for grades 1 through 12 to create programs that focus on a certain area of academics or on student well-being. Potential high school FS3 programs could include a focus on the following:

- Advanced science, technology, engineering, and math (STEM) courses.

- Advanced science, technology, engineering, art, and math (STEAM) courses.
- Student voice, well-being, and mental health.
- Work-based learning.

The FS3 program would also allow for a waiver of the minimum school calendar requirements in Iowa Code section 279.10.

2017 Iowa Acts, chapter 154, increased district flexibility in how unexpended and unobligated amounts from certain categorical funds can be used through the creation and utilization of a flexibility account within a school district's general fund. Use of this flexibility account requires formal action by the district's school board. Statewide in FY 2020, 276 school districts carried forward $45.0 million in teacher leadership funds.

In FY 2020, school districts and AEAs carried forward an estimated $10.5 million in teacher salary supplement funds.

Assumptions

Education Program Standards and Funding:

- School districts will increase transfers to the flexibility account of unobligated or unexpended teacher leadership supplement funds. In FY 2020, 40 school districts made expenditures from their flexibility accounts.
- Additional school districts may submit an adopted resolution authorizing expenditure from their flexibility accounts.
- It is not known how much of the carryforward funds for the teacher salary supplement will be unobligated in FY 2022. Using FY 2020 data for estimation purposes, it is assumed the FY 2022 carryforward amount will be similar, and all carryforward funds will be unobligated.
- Under current law, 5.0% of the estimated FY 2022 teacher salary supplement funds equals $15.9 million.
- There will be 119 school districts and 3 AEAs with an estimated unobligated carryforward of more than 5.0% of the FY 2022 teacher salary supplement funds received.
- Any teacher salary supplement funds not carried forward from FY 2022 may reduce a school district's spending authority in FY 2023.

Fiscal Impact

The allowance for FS3 programs will have no fiscal impact to the State; however, additional DE administration and oversight may be required.

Changes to districts' flexibility accounts under the provisions of this Act will have no fiscal impact to the State. School districts may increase expenditures from their flexibility accounts; however, the extent cannot be determined.

School districts and AEAs will expend an additional estimated $4.7 million from unobligated teacher salary supplement funds in FY 2022. These additional expenditures will have no fiscal impact to the State.

Division II

Background

Education Tax Credits and Deductions — For information on the Tuition and Textbook Tax Credit, please read ***Fiscal Topic:*** *Tax Credit: Tuition and Textbook*. Information on the Teacher Expense Deduction is available here.

Assumptions

Teacher Expense Deduction:

- Current Iowa law allows teachers to deduct up to $250 in qualified classroom expenses from their Iowa income. The deduction is per taxpayer, so married taxpayers are allowed to deduct up to $250 each. This deduction lowers Iowa taxable income and therefore the income tax paid by teachers utilizing the deduction. The Act increases the deduction maximum to $500 per taxpayer. The deduction increase is first effective beginning tax year (TY) 2021.
- The Iowa Department of Revenue (IDR) utilized a model of Iowa tax returns to develop the fiscal impact projection for this provision. The model is based on actual tax returns filed for TY 2019.
- For TY 2019, 33,628 households claimed a total of $8.6 million in Teacher Expense Deductions (an average of $256 per household).
- In determining the fiscal impact of the change, it is assumed that increasing the deduction will not increase the number of households utilizing the deduction and will not cause current claimants to increase their classroom expenses.
- Modeled tax returns in which the TY 2019 deduction was $250 (the maximum for a single taxpayer) or higher (indicating two eligible taxpayers) were randomly assigned projected deductions between $250 and $1,000.
- Modeled tax returns in which the TY 2019 deduction was below $250 were assumed to have deductions for future years equal to their TY 2019 deduction.
- The fiscal impact of teacher expense deduction was computed by comparing the model results under current law (maximum $250 deduction) to the model results assuming a maximum $500 deduction.
- The tax reduction associated with the enhanced deduction is assumed to occur when tax returns are filed (decreased final tax payments and increased tax refunds).

Tuition and Textbook Tax Credit:

- Current Iowa law allows taxpayers to claim a nonrefundable tax credit equal to 25.0% of up to $1,000 in qualified elementary and secondary (K-12) school expenses paid by the taxpayer for each dependent attending an accredited K-12 public or nonpublic school. Qualified expenses include:
  - Tuition to an accredited school.
  - Textbooks.
  - Specialized play, concert, and sports clothing.
  - Driver education fees paid to a K-12 school.
  - Certain dues, fees, and admission charges.

  - Materials for extracurricular activities.
  - Rental of musical instruments and other music expenses.
  - Required supplies for shop and other specialized classes.
  - Fees and charges for transportation if paid to the school.
  - Band and athletic uniforms.
- The Act expands the Tuition and Textbook Tax Credit by increasing the maximum basis of the credit from $1,000 per student to $2,000 and by extending eligibility to include private instruction students (home schooling and other nonaccredited education options).
- Projection Assumptions and Methods:
  - The changes to the tax credit are effective beginning TY 2021.
  - The IDR utilized a model of Iowa tax returns to develop the fiscal impact projection for this provision. The model is based on actual tax returns filed for TY 2019.
  - For TY 2019, 111,800 households claimed a total of $14.9 million in Tuition and Textbook Tax Credits.
  - The expansion of the credit is projected to increase the number of taxpayers benefiting from the credit and the amount claimed by taxpayers. The tax reduction and the resulting projected State General Fund revenue reduction is the summation of three separate impacts:
    - The annual benefit to a portion of the 111,800 current claimants is projected to increase due to the increase in the expense cap to $2,000.
    - Usage of the current credit is low, at around 40.0% of eligible households. Enhancing the tax credit is projected to encourage additional taxpayers who are currently eligible but do not claim the credit to change behavior and claim the credit in the future.
    - The expansion of the credit to include private instruction households is projected by the Legislative Services Agency to add an additional 22,050 private instruction students.
    - The tax reduction associated with the enhanced tax credit is assumed to occur when tax returns are filed (decreased final tax payments and increased tax refunds).
    - Nonrefundable tax credits reduce the income raised by the local option income surtax for schools by an amount that is assumed to equal 3.0% of the reduction in State individual income tax liability.

Fiscal Impact

Teacher Expense Deduction — Increasing the maximum classroom expense deduction from the current $250 to $500 per taxpayer is projected to reduce net General Fund revenue by $410,000 each year, beginning FY 2022.

Tuition and Textbook Tax Credit — The expansion of the Tuition and Textbook Tax Credit is projected to reduce annual General Fund revenue by $11.1 million beginning FY 2022. The change is also projected to reduce the statewide amount of income raised by the local option income surtax for schools by $300,000 per year.

Division III

Background

Open Enrollment — Open enrollment is the process by which parents or guardians residing in a school district may enroll their children into another Iowa school district under the provisions set in the Iowa Code and Iowa Administrative Code. The **deadline** for parents to submit open enrollment applications for grades 1 through 12 is March 1. The **deadline** for students entering kindergarten is September 1. For information on open enrollment, please see here.

Assumptions

Open Enrollment:

- The DE does not collect data on denied or approved open enrollment applications.
- School districts may experience an increase in open enrollment applications; however, the extent is unknown.
- Resident districts may experience a decline in net revenue, while receiving districts may experience an increase in net revenue.
- Revenue includes the previous year's State cost per pupil amount and the resident district teacher leadership supplemental cost. Additional revenue may include funding for additional weighting applicable to the pupil.
- The number of open enrolled students in contiguous districts that qualify for transportation assistance may increase. The resident school district will continue to be responsible for payment of transportation assistance to the parent or guardian if the resident district chooses this option. The cost of transportation reimbursements incurred by the resident district will continue to be deducted from the tuition sent to the receiving district.

Fiscal Impact

Open Enrollment — Changes to open enrollment under the provisions of this Act are expected to have no fiscal impact to the State. Open enrollment applications and transportation reimbursements are expected to increase; however, the extent to which each district may experience a fiscal impact cannot be determined.

Division IV

Background

School Board Powers and Duties — The Iowa Code provides for powers and duties of school boards.

Fiscal Impact

School Board Powers and Duties — This Division clarifies school board member responsibilities and is expected to have no fiscal impact to the State.

Division V

Background

Shared Operational Functions — School districts that share certain job positions with one or more districts, with an Area Education Agency (AEA), or with another authorized authority under an Iowa Code chapter 28E agreement may be eligible to receive supplementary weighting. To be eligible, the function's sharing must be for at least 20.0% of the contract time during the fiscal year for the district and at least 20.0% for one sharing partner. For more information on operational function sharing, see Operational Function Sharing Guidance.

Assumptions

Shared Operational Functions:

- Under current law, the State cost per pupil for FY 2023 and all future years is $7,227.
- Based on supplementary weighting data for FY 2022, reducing the weighting generated for all positions, except superintendent, will reduce supplementary weightings for shared operational functions by 589 weightings beginning in FY 2023.
- A total of 247 school districts will see a reduction in funding ranging from $7,227 to $36,820.
- A total of 80 school districts will remain revenue neutral under the provisions of this Division.
- Of the 80 school districts, 63 districts do not currently generate weighting for shared operational functions. The remaining 16 school districts will continue to submit operational sharing weighting data to the DE that exceed a weighting of 21.0. These districts' weightings will then continue to be adjusted down by the DE to 21.0.
- Funding for WBL coordinators and special education directors will begin in FY 2023 based on school year 2021-2022 data.
- School districts not currently generating an operational function weighting will likely not generate weightings in the future.
- It is assumed 20.0% of the eligible districts will generate operational function weightings by sharing a WBL coordinator and/or a special education director with another district, with an AEA, or with a local authority under an Iowa Code chapter 28E agreement up to the allowable cap of funding allowed.

Fiscal Impact

Beginning in FY 2023, the reduction to weightings for select operational sharing positions and the inclusion of two new positions will reduce State aid from the General Fund by an estimated $2.5 million each year. Property taxes will also be reduced by an estimated $300,000 each year.

Division V Fiscal Impact Summary (in millions)			
State Aid	FY 2023	FY 2024	FY 2025
Weightings Reduction	$ -3.8	$ -3.8	$ -3.8
Additional Allowable Positions	1.3	1.3	1.3
	$ -2.5	$ -2.5	$ -2.5
Property Taxes			
Weightings Reduction	$ -0.4	$ -0.4	$ -0.4
Additional Allowable Positions	0.1	0.1	0.1
	$ -0.3	$ -0.3	$ -0.3
Total	$ -2.8	$ -2.8	$ -2.8

Division VI

Fiscal Impact

Pledge of Allegiance — Changes regarding the Pledge of Allegiance are expected to have no fiscal impact to the State.

Division VII

Fiscal Impact

Facial Covering Policies — Counties, Cities, and Schools — Changes regarding facial covering policies for counties, cities, and schools are expected to have no fiscal impact to the State.

Division VIII

Background

School Tuition Organization Tax Credit — For more information on the STO Tax Credit, please read ***Fiscal Topic:*** *Tax Credit: School Tuition Organization*. The annual limit on STO Tax Credits is currently $15.0 million, and this amount is increased each year by 10.0% whenever tax credit awards in the previous year equals more than 90.0% of that previous year's tax credit limit. This increase process can continue until the maximum annual tax credit limit is $20.0 million.

Assumptions

School Tuition Organization Tax Credit:
Under current law, the STO Tax Credit limit is assumed to increase by 10.0% per year until the $20.0 million limit is achieved for CY 2025. For the proposed law, $20.0 million in annual awards is assumed starting CY 2022.

Fiscal Impact
School Tuition Organization Tax Credit, Charter Schools — The Department of Revenue estimates that increasing the maximum annual level of tax credit awards under the STO Tax Credit to $20.0 million would decrease General Fund revenue by the following amounts:

- FY 2022 = $3.4 million
- FY 2023 = $3.4 million
- FY 2024 = $2.2 million
- FY 2025 = $0.6 million

Division IX

Background
Charter Schools — For more information on charter school legislation, please read ***Fiscal Note:*** *Charter School Programs*.

Fiscal Impact
Charter Schools — Changes regarding charter schools are expected to have no fiscal impact to the State.

Summary Table of Fiscal Impacts of HF 847

Division	Fiscal Impact	Description	Amount	Source
I	No	FS3 Program		May require additional DE administrative costs
	Yes, to school districts	Teacher Salary Categorical	$-4.7 million in FY 2022	Local school district categorical carryforward
II	Yes	Teacher Expense Deduction	$-410,000 beginning in FY 2022	General Fund
		Tuition and Textbook Tax Credit	$-11.1 million beginning in FY 2022	General Fund
			$-300,000 beginning in FY 2022	Local option income surtax for schools
III	Yes, to school districts	Increased open enrollment	Undetermined	Local school districts
IV	No	School board powers		
V	Yes	Operational Sharing	$-2.5 million beginning in FY 2023	State aid from the General Fund
			$-293,000 beginning in FY 2023	Local property taxes
VI	No	Pledge of Allegiance		
VII	No	Facial Covering Policies		
VIII	Yes	STO Tax Credit	$-3.4 million in FY 2022	General Fund
			$-3.4 million in FY 2023	General Fund
			$-2.2 million in FY 2024	General Fund
			$-0.6 million in FY 2025	General Fund
IX	No	Charter Schools		

Effective Date

This Act is generally effective July 1, 2021, with varying applicability dates. However, Division II, provisions of Division III, and Division VII of this Act are effective May 20, 2021.

Enactment Date

This Act was approved by the General Assembly on May 19, 2021, and signed by the Governor on May 20, 2021.

Sources

Iowa Association of School Boards
Iowa Department of Education
Iowa Department of Revenue
LSA calculations

SF 367 – Criminal Surcharge, Court Fees (LSB1174SV.4)
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Fiscal Note Version – Final Action

Description

Senate File 367 relates to certain financial obligations under the consumer credit code and the criminal and juvenile justice system by modifying criminal and civil surcharges, fines, fees, costs, and court debt. The Act makes several technical corrections related to the collection of fines and civil fees. Senate File 367 expands the debts of which the county attorney may not collect a percentage to include all current surcharges.

Senate File 367 amends the definition of court debt to mean all restitution as defined in Iowa Code section 910.1, fees, forfeited bail, and other debt paid to or collected by the clerk of the district court. The Act requires the Iowa Department of Revenue (IDR) receive 15.0% of each court debt payment as a processing fee on cases assigned to the IDR for collection, with the remainder of the court debt to be collected by the clerk of the district court for distribution in accordance with applicable law. The IDR collection fee must not include the amount of court debt collected for restitution involving pecuniary damages, the Victim Compensation Fund, the crime services surcharge, the domestic and sexual abuse crimes surcharge, the agricultural surcharge, or the sex offender civil penalty.

Senate File 367 provides that payments made by a person between January 1, 2021, and January 1, 2022, which added the IDR processing fee to the debt owed, shall be calculated as if the payment had been made and the IDR fee shall be applied to such a payment. The IDR processing fee added to the debt shall be deducted from the amount of court debt owed. If a payment made by a person owing court debt during this specified time reduces the total amount owed to zero, the clerk of court shall issue a refund to the person in the amount of the processing fee. This provision is repealed on January 1, 2023.

Senate File 367 rescinds Iowa administrative rule 701—155.1(602) on January 1, 2022. Section 2 of the Act, which makes a conforming change to Iowa Code section 602.8105, is effective upon enactment and also applies retroactively to July 15, 2020. Section 4 of the Act, which relates to the collection of court debt by the IDR and the 15.0% processing fee collected by the Department, is effective on January 1, 2022.

Background

Prior to July 1, 2015, delinquent court debt was assigned to the Centralized Collection Unit (CCU) of the IDR at the time of delinquency. The CCU charged a 10.0% processing fee in addition to the delinquent debt. The CCU was removed from the collections process beginning in FY 2016, and debt was assigned to the private collector Linebarger, Goggan, Blair, and Sampson, L.L.P. (Linebarger), at the time of delinquency. In FY 2017, further changes to the court debt collection system were implemented. The collections timeline was modified to allow the county attorneys to begin collecting after 30 days from assessment or the due date of an installment payment. If a county attorney has filed a notice of full commitment to collect delinquent court debt and a Memorandum of Understanding (MOU) with the clerk of the district Court, the debt is assigned to the county attorney. If not, the debt is assigned to the designated private debt collector.

During the 2020 Legislative Session, SF 457 (Criminal Fines and Surcharges) was enacted, which removed the private debt collector from the court debt collection process and replaced it with the CCU of the IDR beginning in January 2021. Currently, the IDR is permitted to collect a processing fee in addition to the delinquent debt in order to cover administrative costs. The fee is set by administrative rule at 15.0%. If enacted, this Act will repeal the IDR administrative rule.

Assumptions

- The IDR collections will be similar to the average Linebarger collections from the last three fiscal years. The average annual collection by Linebarger was approximately $9.7 million. In FY 2021, the IDR will collect half of the average annual Linebarger collection since IDR began collecting court debt halfway through the fiscal year.
- Based on the FY 2020 court debt collections, 82.0% of all fines and fees collected by and owed to the State will have a processing fee applied and collected from those fees. Court debt is comprised of: 22.0% attorney fees, 17.0% court costs, 33.0% fines, 10.0% jury and witness fees, and 18.0% surcharges.
- The 15.0% processing fee will cover all administrative costs incurred by the IDR while collecting court debt.

Fiscal Impact

Senate File 367 is estimated to have a fiscal impact of approximately $1.2 million annually beginning in FY 2022. It is estimated that the IDR will collect approximately $1.2 million in processing fees and as a result, the State General Fund and city and county budgets will experience a combined revenue reduction of the same amount. This processing fee will cover any IDR administrative costs. It is unknown at this time how the $1.2 million negative impact would be divided between the State, cities, and counties. **Table 1** provides the annual State collection categories and the fees estimated to be collected from each category beginning in FY 2022.

Table 1 — IDR Estimated State Collections and Fees Beginning in FY 2022

	Annual Estimated Collections*	Est. Fees (15.0%)
Attorney Fees	$ 2,132,000	$ 319,800
Court Costs	1,647,000	247,050
Jury and Witness	969,000	145,350
Fines	3,198,000	479,700
Surcharges	1,744,000	N/A
Total	$ 9,690,000	$ 1,191,900

*Does not include victim restitution or other amounts not owed to the State.

The IDR began collecting court debt on January 1, 2021, and currently collects the processing fee in addition to the amount owed. If between the time the IDR began collecting and January 1, 2022, a person pays off their court debt, including the processing fee, the clerk of court is required to refund the additional processing fee. It is estimated that the IDR will collect $600,000 in processing fees in FY 2021, but it is unknown how much of this will be collected and qualify for refund on January 1, 2022. This may have a fiscal impact on the State General Fund and city and county budgets, but the impact is unknown at this time.

Effective Date

Section 2 of this Act, which makes a conforming change to Iowa Code section 602.8105, is effective upon enactment and also applies retroactively to July 15, 2020. Section 4 of this Act, which relates to the collection of court debt by the IDR and the 15.0% processing fee collected by the Department, is effective on January 1, 2022. All other sections of this Act are effective on July 1, 2021.

Enactment Date

This Act was approved by the General Assembly on May 17, 2021, and signed by the Governor on June 8, 2021.

Sources

Judicial Branch
Iowa Department of Revenue
LSA analysis

SF 619 – Taxation and Other Provisions (LSB2832SV.4)
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Fiscal Note Version – Final Action

Description

Senate File 619 relates to State and local taxation, tax policy, and economic incentive programs. The Act also contains provisions related to:

- Telehealth coverage through health insurance.
- A new Manufacturing 4.0 Technology Investment Program.
- A new Energy Infrastructure Revolving Loan Program.
- A new Downtown Loan Guarantee Program.
- A new Disaster Recovery Housing Assistance Program and Fund.

Provisions of the Act have various effective dates, including retroactive effective dates. **Figures 9, 10, and 11** summarize the fiscal impact of the various Act divisions and can be found at the end of this fiscal note.

Division I — Contingent Income Tax System Triggers

Description and Background

2018 Iowa Acts, chapter 1161, Division IX, made future changes to how Iowa individual income tax liability is calculated. The effective date of Division IX of the 2018 legislation is contingent upon Iowa General Fund revenue reaching two revenue targets, or triggers, at the conclusion of a fiscal year. The two triggers are:

- Actual General Fund net revenue for the fiscal year equals or exceeds $8,314.6 million.
- Actual General Fund net revenue for the fiscal year equals or exceeds 104.0% of the actual General Fund net revenue for the previous fiscal year.

Under the provisions of section 133 of the 2018 legislation, the first year that the two targets may be met is FY 2022, and the first year that the changes in Division IX of the 2018 legislation may become effective is TY 2023.

At the March 2021 meeting of the Revenue Estimating Conference (REC), the REC established an FY 2022 General Fund estimate of $8,385.6 million and a growth rate of 3.8% compared to the FY 2021 estimate of $8,078.9 million. The FY 2022 revenue projection is therefore $71.0 million above the dollar trigger but 0.2 percentage points below the required 4.0% growth trigger. While the REC projection does not meet the trigger requirements, it does not mean that both triggers will not or cannot be met at the conclusion of FY 2022, but it does mean that the triggers are not projected to be met for FY 2022 at this time.

The Act amends the 2018 Iowa Acts by striking the two conditions necessary for the trigger to occur and specifies that the provisions in the 2018 law take effect January 1, 2023.

Assumptions/Fiscal Impact (Division I)

- The first fiscal year both triggers may be met under current law is FY 2022, and if both triggers are met that fiscal year, the contingent income tax system becomes effective for TY 2023 and after. However, in March 2021, the REC established an FY 2022 revenue estimate that does not achieve both triggers at the conclusion of that fiscal year. Therefore, the current-law projection assumes FY 2023 will be the first year that both triggers are met and that the contingent income tax system will become effective for TY 2024 and after.
- The Department of Revenue utilized the individual income tax micromodel to calculate the tax reduction associated with the change to the contingent income tax system for TY 2023. The fiscal impact was determined by comparing model results of tax liability under current law (existing individual income tax system for TY 2023) versus tax liability under the Act (contingent income tax system for TY 2023). Although removing the triggers only directly changes the tax system for one year (TY 2023), the change also has a projected impact in TY 2024 as taxpayers adjust for federal tax payments made and refunds received in TY 2024 that relate to TY 2023 and before. The change also has an ongoing impact on income tax brackets as the brackets are established in the contingent system as specific income levels that are then indexed each tax year after the first implementation year. Implementing the contingent tax system one year earlier will mean that tax brackets are lower by one year's worth of indexing for all future years. The Department model estimates the TY 2023 change will reduce State individual income tax liability by the following amounts:
  - TY 2023 = $297.6 million
  - TY 2024 = $43.7 million
  - TY 2025 and after = $8.0 million per tax year
- The tax year impacts are assumed to be distributed 52.0% to the fiscal year that ends during the tax year through reduced withholding and estimate payments, and 48.0% to the succeeding fiscal year through reduced withholding, estimate payments, payments with tax returns, and increased tax refunds. Reductions by fiscal year:
  - FY 2023 = $154.6 million
  - FY 2024 = $160.2 million
  - FY 2025 and after = $30.1 million per year
- Other changes made within the contingent income tax system (2018 Iowa Acts, chapter 1161, sections 128 through 130) are projected to reduce FY 2024 corporate income tax liability by $17.9 million and bank franchise tax liability by $2.0 million.
- The reduction in State income tax liability will reduce the amount raised by the local option income surtax for schools by 3.0% of State income tax reduction.

Division II — Early Childhood and Child and Dependent Care Tax Credits

Description and Background

The Act increases the maximum net income amount used in determining eligibility for the Early Childhood Development (ECD) and Child and Dependent Care (CDC) Tax Credits. The maximum is increased from $45,000 to $90,000. The change is retroactive to tax years beginning on or after January 1, 2021.

The ECD is equal to 25.0% of the first $1,000 in early childhood development (preschool) expenses the taxpayer pays to others for each dependent aged three through five.

The federal CDC Tax Credit is equal to up to 35.0% of eligible child care expenses for qualified children and dependents. The Iowa CDC Tax Credit is calculated as a percentage of the federal CDC Tax Credit. The Iowa credit is refundable. The Iowa CDC Tax Credit ranges from 75.0% of the federal credit for taxpayers with net income of less than $10,000, to 30.0% for taxpayers with net income of $40,000 to $44,999. The Iowa CDC Tax Credit is not available to taxpayers with net income of $45,000 or more. The Act increases the $45,000 income limit for the 30.0% tax credit to $90,000.

Assumptions/Fiscal Impact (Division II)

The number of taxpayers benefiting from the increase in the maximum net income amount for the CDC and ECD Tax Credits, as well as the tax credit value, was estimated by the Department of Revenue using the Department's computer model of Iowa income tax returns. That model utilizes actual State and federal tax return data from TY 2019 to simulate tax returns filed for future tax years. The model gives the Department the ability to change tax parameters and determine the estimated fiscal impact of those changes on tax liability and State General Fund revenue.

Figure 1

CDC and ECD Tax Credit Net Income Maximum Increase
Estimated Taxpayer Benefit by Tax Year

	Resident Taxpayers			Nonresident Taxpayers			All Taxpayers		
	Number of Taxpayers	Average Tax Credit	Tax Credit Total	Number of Taxpayers	Average Tax Credit	Tax Credit Total	Number of Taxpayers	Average Tax Credit	Tax Credit Total
TY 2021	24,530	$ 171	$ 4,194,672	1,555	$ 68	$ 105,746	26,085	$ 165	$ 4,300,418
TY 2022	24,082	171	4,117,953	1,488	69	102,674	25,570	165	4,220,627
TY 2023	23,511	171	4,020,366	1,410	71	100,132	24,921	165	4,120,498
TY 2024	25,710	180	4,627,775	1,765	70	123,562	27,475	173	4,751,337
TY 2025	25,955	186	4,827,594	1,682	70	117,760	27,637	179	4,945,354
TY 2026	26,947	190	5,120,000	1,806	72	130,000	28,753	183	5,250,000

To convert tax year impacts to fiscal year impacts, the following timing assumptions are made:

- Fiscal year 2021 ends June 30, 2021. Given the retroactive application to TY 2021, 15.0% of the TY 2021 impact is assumed to fall in FY 2021 and 85.0% in FY 2022.
- Impacts for tax year 2022 and after are assumed to fall 65.0% in the first fiscal year and 35.0% in the second fiscal year.

The changes to the Iowa CDC and ECD Tax Credits contained in the Act are projected to reduce net General Fund revenue by the following amounts:

- FY 2021 = $0.6 million
- FY 2022 = $16.2 million
- FY 2023 = $4.2 million
- FY 2024 = $4.5 million
- FY 2025 = $4.9 million
- FY 2026 and after = $5.1 million

As refundable tax credits, the changes do not impact the calculation of the local option income surtax for schools. Expected implementation costs for the Department of Revenue are assumed to be minimal. Given the expanded number of taxpayers projected to claim the credits, enforcement costs for the Department will increase.

Division III — COVID-19 Grant Tax Exemption

Description and Background

The Act exempts the proceeds of grants received by a taxpayer from COVID-19 assistance programs administered by the Economic Development Authority (EDA), the Iowa Finance Authority (IFA), and the Department of Agriculture and Land Stewardship (DALS) from the State corporate and individual income tax. The income exclusion provided in the Act is repealed on January 1, 2024, and does not apply to tax years beginning on or after that date.

Assumptions/Fiscal Impact (Division III)

The exemption is expected to apply to 14 grant programs administered by the EDA and/or IFA and five grant programs administered by the DALS. The Department of Revenue estimates that $307.8 million in COVID-19 assistance grants has been distributed through these grant programs. Assumptions include:

- A total of $114.9 million was distributed to tax-exempt entities, and a total of $192.9 million was distributed to entities subject to the individual or corporate income tax.
- The average marginal income tax rate will be 5.3% for taxed entities.
- The timing of tax return or amended tax return filing will result in 90.0% of the tax reduction occurring in FY 2021 and 10.0% occurring in FY 2022.

The fiscal impact is estimated to be a reduction of $9.2 million in FY 2021 and $1.0 million in FY 2022.

Division IV — Paycheck Protection Program Taxation

Description

The Act expands an existing tax preference available for the income and deductions associated with a forgiven federal Paycheck Protection Program (PPP) loan to include taxpayers who received a PPP loan within the taxpayer's 2019 tax year (TY).

Existing Iowa law provides an income tax exemption and associated expense deduction for forgiven federal PPP loans for tax years beginning on or after January 1, 2020 (TY 2020). This change extends the same benefit to taxpayers whose tax year is not the calendar year and who received PPP income in TY 2019.

Assumption/Fiscal Impact (Division IV)

The Department of Revenue estimates that Iowa businesses that do not have a tax year that coincides with a calendar year have a total of $107.8 million in net PPP income that will be subject to Iowa income tax under existing law. The net PPP income amounts, average marginal tax rates, and income tax reductions assumptions are shown in **Figure 2**. It is anticipated that taxpayers will file returns or amended returns for TY 2019 prior to the end of FY 2021.

Figure 2

Paycheck Protection Program Tax Exemption
Projected General Fund Revenue Reduction
Dollars in Millions

Taxpayer Type	PPP Net Income	Marginal Tax Rate	Tax Reduction
Nonprofits	$ 19.7	0.0%	$ 0.0
C Corporations	$ 43.2	6.40%	$ 2.8
S Corps & Partnerships	$ 38.2	5.58%	$ 2.1
Individuals	$ 6.7	5.35%	$ 0.4
	$ 107.8		$ 5.3

Division V — Inheritance Tax

Description and Background

Under current law, an inheritance received by a lineal ascendant or descendant of the deceased is exempt from the Iowa inheritance tax no matter the value of the estate or the amount inherited. Tax rates from 5.0% to 15.0% may apply to inheritances that are not otherwise exempt under Iowa Code chapter 450. Inheritance tax returns are generally due nine months after the death of the decedent.

A gross total of $81.5 million in Iowa inheritance tax was deposited to the State General Fund in FY 2020. Over the past six years, refunds of Iowa inheritance tax have averaged $2.4 million. Forecasted Iowa inheritance tax gross receipts for FY 2021 and FY 2022 equal $88.0 million and $91.3 million respectively. Iowa inheritance tax refunds are not forecasted separately.

The Act phases out the inheritance tax rate in five stages by reducing the effective tax rate by 20.0% per year over four years and then eliminating the tax on January 1, 2025 (for deaths occurring on or after that date).

Assumptions/Fiscal Impact (Division V)

The Department of Revenue analyzed a sample of 150 Iowa inheritance tax returns filed over the past five years to produce this estimate. The tax involved with the future returns is assumed to reach the State General Fund nine months after the death of the decedent.

The DOR estimates that a five-year phase out of the inheritance tax will reduce Iowa General Fund revenue by the following annual amounts:

- FY 2021 = $0.5 million
- FY 2022 = $15.1 million
- FY 2023 = $34.1 million
- FY 2024 = $54.5 million
- FY 2025 = $76.6 million
- FY 2026 = $99.7 million
- FY 2027 = $107.4 million

State Administration Issues

Division V of the Act phases out and eliminates the State inheritance tax. The Act provides for the removal of inheritance tax references from the Iowa Code. There are certain situations where the tax due under current law is deferred until a later date. While the Department of Revenue states that the authority to collect the deferred inheritance tax likely will still exist without the inheritance tax remaining in the Iowa Code, the Department recommends that the authority to collect deferred inheritance taxes specifically remain as part of the Iowa Code until all deferred taxes have been paid.

Division VI — Real Estate Transfer Tax to Housing Trust Fund

Description and Background

Iowa imposes a Real Estate Transfer Tax at a rate of $0.80 for every $500 of the price paid for the property when real property is sold or otherwise transferred. The first $500 of property is exempt. A list of exempt transfers is provided in Iowa Code section 428A.2. The tax is paid to the county. The county retains 17.25% of the tax and remits the remaining 82.75% to the State. Under current law, the State portion is deposited to three funds:

- 30.0% to the Housing Trust Fund, subject to a maximum fiscal year deposit of $3.0 million.
- 5.0% to the Shelter Assistance Fund.
- The remainder to the State General Fund.

The Act raises the Housing Trust Fund maximum to $7.0 million per fiscal year, beginning with FY 2022.

Assumptions/Fiscal Impact (Division VI)

- The FY 2020 State portion of the Real Estate Transfer Tax totaled $24.5 million. Of that amount, the Housing Trust Fund received $3.0 million, the Shelter Assistance Fund received $1.2 million, and the State General Fund received $20.3 million.
- State Real Estate Transfer tax receipts are assumed to exceed $23.3 million for FY 2022 and succeeding fiscal years; therefore, it is assumed that the Housing Trust Fund will receive the full $7.0 million allocation each year, reducing General Fund revenue by $4.0 million per year beginning in FY 2022.

Division VII — High Quality Jobs Program Day Care Centers

Description

The Act amends the eligibility requirements under the High Quality Jobs Program to allow the Economic Development Authority (EDA) to consider whether a proposed project will provide a licensed child care facility for use by the business's employees.

Assumptions (Division VII)

Allowing the EDA to consider the inclusion of a licensed child care facility when determining the eligibility of a business for economic assistance under the High Quality Jobs Program is not projected to have a significant fiscal impact beyond what is assumed for the High Quality Jobs Program in general.

Division VIII — Telehealth Parity

Description and Background

The Act requires Iowa health carriers to reimburse health care professionals or facilities for health care services for mental health conditions, illnesses, injuries, or diseases provided to a covered person by telehealth on the same basis and at the same rate as the health carrier would apply to the same mental health care services provided to a covered person by the health care professional or facility in person. This requirement would become effective upon enactment, and is retroactive to January 1, 2021.

Between 2018 and 2019, the number of telehealth visits increased by more than 460.0% for persons covered by a State of Iowa health plan, and the number increased in 2020 by more than 4,800.0% across all conditions. In 2020, the number of telehealth visits increased by 6,000.0% for mental health-related conditions. The average amount paid in 2019 for mental health-related services provided via telehealth was approximately $80 per visit. In 2020, this increased to about $138, owing to the following three changes:

- As telehealth became much more common/preferred in 2020 (likely due to the COVID-19 pandemic), the mix of services changed and more costly services that had previously only been done in person were performed via telehealth.
- Carriers (and self-funded plans, like the State of Iowa Plan) agreed to reimburse telehealth services at parity with in-person alternatives.

- Carriers (and self-funded plans, like the State of Iowa Plan) covered member cost sharing related to services received by telehealth.

Assumptions (Division VIII)

- In FY 2021 and beyond, the telehealth utilization trend for individuals with coverage will align more closely with utilization of in-person office visits.
- Based on current utilization trends, the utilization of telehealth services for mental health-related conditions for State of Iowa Plan members will be roughly 1,425 visits each week.
- Telehealth parity will increase the per visit cost as carriers, including the State of Iowa Plan, are required to match the costs associated with in-person services.
- The amount paid by the State of Iowa Plan will be roughly $128 per visit.
- To pay at parity for mental health services delivered through telehealth, instead of at 75.0% of the in-person rate, the additional cost per visit will be $34.50.

Fiscal Impact — Telehealth

The estimated cost increase to the State of Iowa Plan for reimbursing health care professionals and facilities for mental health services delivered via telehealth is estimated to be $2.6 million for the first year of implementation. As health care costs increase and utilization patterns change, additional costs are expected in subsequent fiscal years.

Telehealth Claims Paid Through Medicaid

Currently, there is no available data on telehealth claims paid through Medicaid. However, Medicaid currently pays Area Education Agencies (AEAs) and local education agencies (LEAs) for behavioral health services identified in a student's Individualized Education Plan; subsequently, the AEAs and LEAs return the State portion of the payment to Iowa Medicaid Enterprise for those services. The fiscal impact of telehealth parity cannot be determined at this time for these cases as schools, AEAs, and LEAs maintain the authority to negotiate how services are to be reimbursed.

Division IX — Economic Development Authority Annual Tax Credit Limits

Description and Background

The Act reduces the maximum amounts of annual tax credits that the Economic Development Authority (EDA) may issue in a year for the High Quality Jobs Program and the Renewable Chemical Production Tax Credit Program. The changes are effective upon enactment and apply to annual tax credit limits for FY 2022 and after.

The annual tax credit limit for the High Quality Jobs Program is established in Iowa Code section 15.119. The tax credit cap has varied over time, with the FY 2016 through FY 2020 cap averaging $107.0 million. Over those five fiscal years, tax incentives awarded through the High Quality Jobs Program have averaged $53.9 million per year. The Act lowers the annual cap to $70.0 million. The Program has not awarded more than $70.0 million since FY 2016 and based on this history, it is assumed that the $70.0 million cap will not reduce the amount of credits awarded.

The Renewable Chemical Production Tax Credit Program was first available in FY 2017. The annual cap is $10.0 million. Since inception, the Program has awarded a total of $3.3 million in tax credits, with FY 2020 being the highest award year at $1.3 million. The Act lowers the cap for this Program to no more than $5.0 million in tax credits per year, but it is assumed that the new cap will not reduce the amount of credits awarded.

Division X — High Quality Jobs Program Eligibility Requirements

Description

The Act allows award recipients to benefit from, or to continue to benefit from, High Quality Jobs Program incentives in certain instances where current law may cause awarded benefits to not be available or to be rescinded. The Act allows the EDA to ignore an applicant's reduction in operations if the reduction occurred after March 1, 2020, and was caused by COVID-19. The change is effective through June 30, 2022.

Assumption/Fiscal Impact (Division X)

The temporary, permissive business qualification language is assumed to not have a direct impact on State revenue or expenditures.

Division XI — Manufacturing 4.0

Description

The Act creates a Manufacturing 4.0 Technology Investment Program to be administered by the EDA. Manufacturing 4.0 technology investments are defined as projects intended to lead to the adoption and integration of smart technologies into existing manufacturing operations. The purpose of the new financial assistance program is to mitigate the risk to manufacturers that might occur through significant technology investments. A fund is created for the Program, and the fund may be administered by the EDA as a revolving fund. The Act allows the new fund to receive appropriations, but no appropriation is provided in the Act. Financial assistance to a qualified manufacturing business is limited to no more than $75,000. Eligible manufacturing businesses must:

- Manufacture goods at a facility in Iowa.
- Be classified as a manufacturer.
- Have existed as a business for at least three years prior to the application for financial assistance.
- Derive a minimum of 51.0% of the manufacturer's overall revenue from the sale of manufactured goods.

- Employ a minimum of three and a maximum of 75 full-time employees.
- Have an assessment of the proposed investment completed by the Center for Industrial Research at Iowa State University.
- Provide matching financial support.

Assumption/Fiscal Impact (Division XI)

The Act does not provide funding for the Manufacturing 4.0 Technology Investment Program created in the Act. The Act states that the new Program may be funded by any moneys appropriated for the purpose by the General Assembly and "any other moneys that are lawfully available to the Authority." The Act does not provide any funding for administration of the new Program.

Division XII — Alternate Energy Revolving Loan Fund

Description

The Act ends funding for the Alternate Energy Revolving Loan Fund and transfers the ending balance in that Fund as well as any future loan repayments to a new Energy Infrastructure Revolving Loan Program. This change is effective beginning FY 2022. The Alternate Energy Revolving Loan Fund is created in Iowa Code section 476.46, and the Fund is administered by the Iowa Energy Center (Iowa Code section 15.120).

Assumptions/Fiscal Impact (Division XII)

- The balance in the Alternate Energy Revolving Loan Fund at the conclusion of FY 2021 is projected to be $14.4 million.
- Future loan repayments that are due to the Alternate Energy Revolving Loan Fund in FY 2022 and after are estimated to total $3.3 million.
- Administrative costs will be covered by the new Fund. The EDA is allowed to use up to 5.0% of the moneys in the Disaster Recovery Housing Assistance Fund to administer the new programs created in the Act.

The requirement to transfer moneys from the Alternate Energy Revolving Loan Fund will result in the projected deposit of $17.7 million in ending balance and future loan repayments to the Energy Infrastructure Revolving Loan Program that is created in the Act.

Division XII creates a new Energy Infrastructure Revolving Loan Fund and associated Program. The Act assigns the new Fund and Program to the Iowa Energy Center, created in Iowa Code section 15.120. Under current law, the Iowa Code authority for the Iowa Energy Center is repealed July 1, 2022, one year after the new Fund and Program are created.

Division XIII Workforce Housing Tax Credits

Description

The Act increases the maximum amount of tax credits allowed under the Workforce Housing Tax Incentives Program and also increases the set-aside amount reserved for small cities. Currently, the Program is limited to $25.0 million per year, and the small city set-aside is $10.0 million. The Act increases the tax credit maximum to $40.0 million for FY 2022, and $35.0 million for FY 2023 and after. The small city set-aside is increased to $12.0 million for FY 2022, and $17.5 million for FY 2023 and after.

Assumptions/Fiscal Impact (Division XIII)

- The fiscal impact of increasing the annual tax credit limits for the Workforce Housing Tax Incentive Program by $15.0 million for FY 2022 and $10.0 million for FY 2023 and after was estimated by the Department of Revenue utilizing historical patterns of tax credit awards and tax credit redemptions over the history of the Program.
- The changes to the allocation of a portion of the total annual cap to small cities is assumed to be included within the fiscal impact of raising the Program cap.

Increasing the annual tax credit limit for the Workforce Housing Tax Incentives Program is projected to reduce General Fund revenue by the following amounts:
- FY 2022 = $5.3 million
- FY 2023 = $9.0 million
- FY 2024 = $10.4 million
- FY 2025 and after = $10.0 million

Division XIV — Redevelopment Tax Credit

Description

The Redevelopment Tax Credit (brownfields and grayfields) Program expires under current law at the end of FY 2021. The Act extends the Program 10 years, to June 30, 2031, and establishes an annual aggregate maximum credit level of $15.0 million, beginning FY 2022. The Act also allows the amount of Redevelopment Tax Credits that were revoked or were otherwise never awarded over the previous five years to be added to the annual maximum credit cap for the Program in a future year. The changes are effective upon enactment.

Assumptions/Fiscal Impact (Division XIV)

- The 10-year extension of the Redevelopment Tax Credit Program is assumed to result in an additional $15.0 million in annual awards for FY 2022 through FY 2031.

- The amount of tax credits revoked or otherwise not awarded over the past five years is estimated by the EDA to equal $5.0 million. Under the Act, this additional amount may be issued above the annual tax credit limit in FY 2022 and after. It is assumed that an additional $2.0 million will be awarded in FY 2023 and in FY 2024 and $1.0 million will be awarded in FY 2025 as a result of this provision.
- Tax credits awarded in a fiscal year are assumed to be redeemed on the following schedule:
  - Fiscal year of award = 0.0%
  - Second fiscal year = 5.0%
  - Third fiscal year = 15.0%
  - Fourth through seventh fiscal year = 20.0%

Extending and increasing the annual tax credit limit for the Redevelopment Credit is projected to reduce General Fund revenue by the following amounts:

- FY 2022 = $0.9 million
- FY 2023 = $3.4 million
- FY 2024 = $6.8 million
- FY 2025 = $10.0 million
- FY 2026 = $13.0 million
- FY 2027 = $16.0 million

Division XV — Downtown Loan Guarantee Program

<u>Description</u>

The Act creates a new Downtown Loan Guarantee Program to be administered by the EDA in partnership with the IFA. The Program may guarantee qualified loans up to 50.0% of the amount of the loan, subject to a maximum guarantee of $250,000. A loan may be guaranteed for up to 10 years, including extensions. To qualify, the guaranteed loan must meet specified conditions, including but not limited to:

- The loan finances:
  - An eligible Downtown Resource Center Community Catalyst Building Remediation Grant project, or
  - A Main Street Iowa Challenge Grant within a designated district.
- The loan finances a rehabilitation project.
- The project includes a housing component.
- The loan is used for construction and/or permanent financing of the project.
- A federally-insured financial institution issued the loan.
- The project meets Downtown Resource Center and Main Street Iowa design review.

Assumptions/Fiscal Impact (Division XV)

The Act does not provide any new funding source for the Downtown Loan Guarantee Program created in the Act. The Act states that the new Program may be funded by any moneys appropriated for the purpose by the General Assembly and "any other moneys that are lawfully available to the Economic Development Authority." The Act does not provide funding for administration of the new Program.

Division XVI — Disaster Recovery Housing Assistance Program and Fund

Description

The Act creates a new Disaster Recovery Housing Assistance Program and Disaster Recovery Housing Assistance Fund for the development and operation of a forgivable loan and grant program for homeowners and renters with disaster-affected homes, and for an eviction prevention program. The new programs may be financed through the transfer of unobligated moneys available in the Senior Living Revolving Loan Program Fund, the Home and Community-Based Services Revolving Loan Program Fund, the Transitional Housing Revolving Loan Program Fund, and the Community Housing and Services for Persons with Disabilities Revolving Loan Program Fund. All four listed funds are under the control of the IFA. In addition, the Act grants, with the written consent and approval of the Governor, the authority to transfer any unobligated moneys in any IFA or EDA fund created in Iowa Code section 16.5(1)(s) or 15.106A(1)(o). This Division of the Act is effective upon enactment.

Assumptions/Fiscal Impact (Division XVI)

The language allowing the transfer of unobligated balances from IFA and EDA funds is permissive. The unobligated balances in the listed IFA and EDA funds are not known.

Administrative costs will be covered by the new Fund. The EDA is allowed to use up to 5.0% of the moneys in the Disaster Recovery Housing Assistance Fund to administer the new programs created in the Act.

Divisions XVII and XVIII — Bonus Depreciation and Interest Deduction

Description and Background

Under traditional tax accounting, when a business purchases equipment and other capital assets that have a long expected useful life, the expense deduction associated with the purchases are spread (deducted) for tax purposes over the useful life of the asset. An item purchased with a 20-year useful life may be recorded as a business expense in 20 equal installments spanning 20 tax years. However, current federal law allows taxpayers to immediately deduct a higher portion of the asset cost in the year of purchase. This accelerated deduction is commonly referred to as bonus depreciation. Bonus depreciation reduces business taxable income in the initial year by increasing allowed business expenses. Bonus depreciation then increases taxable income in succeeding years as the business has a lower expense level to deduct due to their use of bonus depreciation in the initial year.

Federal bonus depreciation is currently available at 100.0% of the asset cost, meaning that for qualifying purchases, the entire cost can be deducted in the year of purchase. This percentage is scheduled to phase down to 20.0% by tax year 2026 and then be eliminated for tax year 2027.

Division XVII of the Act couples Iowa tax law with federal bonus depreciation for qualified equipment and other capital assets purchased on or after January 1, 2021. The change does not allow bonus depreciation for State tax purposes for purchases made prior to January 1, 2021.

Current Iowa Code section 422.7(60) decouples Iowa tax law with a federal provision that limits the amount of interest certain companies can claim as a business expense deduction. This decoupling means that for Iowa tax purposes, the interest deduction is not limited. However, under the provisions of the current bonus depreciation decoupling language, the State tax benefit of interest decoupling is only available for tax years in which Iowa does not allow businesses to use bonus depreciation.

Division XVIII decouples Iowa tax law with the federal interest limitation. The result of Divisions XVII and XVIII combined will be to allow business taxpayers to begin to benefit from bonus depreciation (starting January 1, 2021), while not being subject to the federal interest deduction limitation.

Assumptions/Fiscal Impact (Divisions XVII and XVIII)

The estimated fiscal impacts of these divisions were calculated by the Department of Revenue based on national estimates published by the Joint Committee on Taxation. The Department estimates assume that 90.0% of the bonus depreciation and interest deduction impacts will result in changes to corporate income tax liability and 10.0% will result in changes to individual income tax liability.

The Department analysis concludes that the changes to bonus depreciation will initially result in State General Fund revenue decreases, followed by State General Fund revenue increases beginning with FY 2027.

Coupling with federal bonus depreciation while simultaneously decoupling with the federal interest deduction limitation is projected to decrease (-) and increase (+) General Fund revenue by the following amounts:
- FY 2022 = $-28.9 million
- FY 2023 = $-20.9 million
- FY 2024 = $-14.8 million
- FY 2025 = $-7.7 million
- FY 2026 = $-2.0 million
- FY 2027 = $+9.0 million

Division XIX — Beginning Farmer Tax Credit

Description

The Beginning Farmer Tax Credit Program provides tax incentives to owners of agricultural assets who enter into leases or other agricultural contracts with qualified beginning farmers. The current tax credit is equal to 5.0% of qualified cash rent payments or 15.0% of the market price of the commodity produced on the land subject to the lease. The owner of the agricultural asset(s) subject to a qualified agreement receives the benefit of the tax credit.

A farmer qualifies as a beginning farmer by meeting all of the following criteria:

- Is a resident of Iowa.
- Has sufficient education, training, or experience in farming.
- Has access to adequate working capital and production items.
- Will materially and substantially participate in farming.
- Does not own more than a 10.0% ownership interest in an agricultural asset included in the agreement with the taxpayer.

The Program is subject to a maximum award amount (cap) of $12.0 million per calendar year. Tax credits awarded under the Program totaled $6.4 million for CY 2019 and $6.5 million for CY 2020. The highest total for a year was CY 2017 at $9.6 million. The full award history is provided in **Figure 3**.

Figure 3

Beginning Farmer Tax Credit Program Awards
In Millions

Award Year	Award Amount	Award Year	Award Amount
CY 2007	$ 1.3	CY 2014	$ 6.5
CY 2008	2.0	CY 2015	7.0
CY 2009	2.7	CY 2016	8.6
CY 2010	3.6	CY 2017	9.6
CY 2011	5.2	CY 2018	6.0
CY 2012	5.8	CY 2019	6.4
CY 2013	6.0	CY 2020	6.5

The Act expands the existing Beginning Farmer Tax Credit Program. The Act:

- Specifies that an agricultural asset subject to a qualified agreement may include an agricultural improvement (building).
- Removes a requirement that a qualified lease must include agricultural land.
- Increases the current 10-year maximum that a taxpayer may participate in the Program to 15 years.
- Allows a taxpayer to participate in the Program through multiple agreements and with more than one qualified beginning farmer.
- Allows agreements to be renewed more than once.
- Changes a current $50,000 per year limit on the annual amount of tax credits a single taxpayer may earn to a $50,000 per year, per agreement limit.

Assumptions/Fiscal Impact (Division XIX)

Although the Beginning Farmer Tax Credit Program has an annual cap of $12.0 million, the Program does not have sufficient demand under current law to fully utilize that cap. Utilization over the past three years has averaged $6.3 million, and the highest recent utilization was CY 2020 at $6.5 million. Therefore, it is assumed that under current law the tax credit award demand for future years will equal $6.5 million per year.

The changes provided in the Act remove participation restrictions and expand the types of agricultural assets that may be the subject of agreements. It is assumed for this projection that the Program expansions will increase awards by $2.5 million, to a total of $9.0 million per calendar year.

The credits are not refundable or transferable, but unused credits may be carried forward for up to 10 tax years. For reasons particular to each taxpayer, some earned tax credits are never redeemed on a tax return. Based on the history of tax credit redemptions under this Program, the following tax credit redemption pattern is assumed:

- Year of award = 0.0%
- First tax year after award = 28.0%
- Second tax year = 15.0%
- Third through sixth tax year = 7.0%
- Tax credits that expire unused = 29.0%

This Division of the Act takes effect January 1, 2022.

Expanding the Beginning Farmer Tax Credit program is projected to reduce General Fund revenue by the following amounts:

- FY 2023 = $0.7 million
- FY 2024 = $1.1 million
- FY 2025 = $1.3 million
- FY 2026 = $1.4 million

- FY 2027 = $1.6 million
- FY 2028 and after = $1.8 million

Division XX — Promotional Play Gambling Tax

Description and Background

The Act amends the definition of adjusted gross receipts (AGR) to include all promotional play receipts on gambling games from the beginning of FY 2022 to the end of FY 2026. During this time period, the Act imposes a new graduated tax rate on promotional play receipts by multiplying an adjusted percentage by the State wagering tax applicable to the licensed gaming entity, with a complete phaseout of the tax on promotional play receipts by July 1, 2026 (FY 2027).

Iowa Code section 99F.1 defines promotional play receipts as the total sums wagered on gambling games with tokens, chips, electronic credits, or other forms of cashless wagering provided by the licensee without an exchange of money. From FY 2017 to FY 2019, total promotional play receipts (both taxed and exempt from taxation after the $25.8 million tax receipts threshold was met) comprised 8.4% of all AGR for Iowa casinos. In FY 2020, total promotional play was at its lowest ($94.5 million and 8.1% of all AGR for Iowa casinos) due to the two-month casino closures as a result of the COVID-19 pandemic.

The Act also removes promotional play receipts from the definition of sports wagering net receipts. The Act provides that promotional play receipts on sports wagering are included in the total annual purses for all horse racing.

Current gambling revenues are taxed by the State based on AGR from gambling games. Under current law, AGR includes promotional play receipts until the date in any fiscal year that the wagering tax on promotional play receipts exceeds $25.8 million.

The first $1.0 million in AGR is taxed at a rate of 5.0%, and the next $2.0 million in AGR is taxed at a rate of 10.0%. The tax rate imposed on AGR that exceed the first $3.0 million is calculated on an individual fiscal year basis as follows:
- Licensees of a gambling entity with a racetrack enclosure claiming AGR of $100.0 million or more are taxed at a rate of 24.0%.
- All other licensees (those without a racetrack enclosure or claiming less than $100.0 million in AGR) are taxed at a rate of 22.0%.

There are currently 19 State-licensed gambling entities operating in Iowa. Of these 19 entities, two are taxed at 24.0% and 17 are taxed at 22.0%.

Iowa Code section 8.57(5) distributes the majority of the State wagering tax to several State funds in a prioritized order (**Figure 4**). The first $139.8 million is allocated to the first five funds. State wagering taxes that are in excess of $139.8 million are deposited into the Rebuild Iowa Infrastructure Fund (RIIF).

Figure 4
Distribution of State Wagering Taxes
In Millions

	Actual FY 2019	Actual FY 2020	Estimated FY 2021	Estimated FY 2022
Revenue Bonds Debt Service Fund	$ 55.0	$ 55.0	$ 55.0	$ 55.0
Federal Subsidy Holdback Fund	3.8	3.8	3.8	3.8
Vision Iowa Fund	15.0	15.0	15.0	0.0
Water Quality Infrastructure Fund	0.0	0.0	0.0	15.0
General Fund	0.0	2.3	2.3	2.3
Skilled Worker Job Creation Fund	66.0	63.8	63.8	63.8
Rebuild Iowa Infrastructure Fund	151.6	91.3	148.8	148.8
Total	**$ 291.4**	**$ 231.0**	**$ 288.6**	**$ 288.6**

Note: Numbers totals may sum incorrectly due to rounding.

In addition to the allocation of State wagering taxes discussed above, Iowa Code section 99F.11(3) allocates a portion of State wagering taxes as follows (**Figure 5**):

- 0.5% of AGR tax to the county where a casino is located.
- 0.5% of AGR tax to the city where a casino is located.
- 0.8% of AGR tax to the County Endowment Fund. The proceeds of this Fund are distributed equally to counties that do not have a licensed casino for funding charitable organizations.
- 0.2% of AGR tax for several specified purposes: Of the amount collected, the first $520,000 is allocated to the Department of Cultural Affairs (DCA) for cultural grants and operations. Of the amount remaining, 50.0% is allocated to the Iowa Economic Development Authority (EDA) for tourism marketing, and the other 50.0% is allocated to the RIIF. The wagering taxes allocated to the DCA and IEDA are first deposited into the General Fund before being appropriated back to those departments.

Figure 5
Allocation of State Wagering Taxes
In Millions

	Actual FY 2019	Actual FY 2020	Estimated FY 2021	Estimated FY 2022
Cities and Counties	$ 14.6	$ 11.6	$ 14.5	$ 14.3
County Endowment Fund	11.7	9.3	11.6	11.4
Cultural Grants and Tourism	1.7	1.4	1.7	1.7
Rebuild Iowa Infrastructure Fund	1.2	1.2	1.2	1.1
Total	**$ 29.1**	**$ 23.5**	**$ 28.9**	**$ 28.5**

Note: Numbers totals may sum incorrectly due to rounding.

Iowa Code section 99F.5 requires an operating agreement between a licensee of a gambling entity and a Qualified Sponsoring Organization (QSO), which is organized as a nonprofit corporation. The statute requires that the agreement provide for a minimum distribution of funds for educational, civic, public, charitable, patriotic, or religious uses that averages at least 3.0% of the AGR per year. The terms of the agreements between the operators and the QSOs throughout the State will vary.

The State taxes all sports wagering net receipts, including promotional play, at 6.75%. The tax receipts are deposited into the Sports Wagering Receipts Fund and are estimated to total $3.2 million in FY 2021. The proceeds of the Sports Wagering Receipts Fund are available for appropriation by the General Assembly.

Assumptions/Fiscal Impact for Promotional Play on Wagering Taxes (Division XX)

- Annual AGR for FY 2021 and FY 2022 will total $1.446 billion and are based on the State wagering tax estimates established by the Revenue Estimating Conference (REC) in March 2021. Total AGR, including promotional play receipts, totaled $1.163 billion in FY 2020. Adjusted gross receipts are projected to increase by 0.5% per year from FY 2022 to FY 2027.
- It is assumed that taxed promotional play receipts will average approximately 8.2% of AGR for FY 2021 through FY 2027.
- Under current law, the State will continue to collect State wagering taxes on promotional play receipts at the statutory maximum of $25.8 million annually.
- The base tax rate on promotional play receipts will be 22.0% for the projected years and will be reduced by the adjusted percentage specified as follows:
  - FY 2022: 16.7% (83.3% of the base tax rate)
  - FY 2023: 33.3% (66.7% of the base tax rate)
  - FY 2024: 50.0% (50.0% of the base tax rate)
  - FY 2025: 66.7% (33.3% of the base tax rate)
  - FY 2026: 83.3% (16.7% of the base tax rate)

- FY 2027: No tax on promotional play

The phaseout of the tax on promotional play receipts as proposed in the Act would result in an estimated reduction in State wagering taxes beginning in FY 2022 of $4.3 million and increasing to $25.8 million by FY 2027. **Figure 6** shows the estimated revenue reduction by fiscal year to State programs and cities and counties with domiciled casinos.

Figure 6
Estimated State Wagering Tax
In Millions

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Current Law Estimated Receipts						
RIIF	$ 148.8	$ 150.3	$ 151.8	$ 153.3	$ 154.8	$ 156.3
County Endowment Fund	11.6	11.6	11.7	11.7	11.8	11.9
0.2% AGR - IEDA & DCA	1.7	1.7	1.7	1.7	1.7	1.7
0.2% AGR - RIIF	1.2	1.2	1.2	1.2	1.2	1.2
Cities and Counties	14.5	14.5	14.6	14.7	14.8	14.8
Total	**$ 177.7**	**$ 179.4**	**$ 181.0**	**$ 182.6**	**$ 184.3**	**$ 185.9**
Estimated Receipts after the Act						
RIIF	$ 144.9	$ 142.5	$ 140.0	$ 137.6	$ 135.2	$ 132.8
County Endowment Fund	11.4	11.3	11.2	11.1	11.0	10.9
0.2% AGR - IEDA & DCA	1.7	1.7	1.7	1.7	1.6	1.6
0.2% AGR - RIIF	1.2	1.2	1.1	1.1	1.1	1.1
Cities and Counties	14.3	14.1	14.0	13.9	13.8	13.7
Total	**$ 173.4**	**$ 170.8**	**$ 168.1**	**$ 165.4**	**$ 162.8**	**$ 160.1**
Estimated Revenue Reduction						
RIIF	$ 3.9	$ 7.8	$ 11.7	$ 15.6	$ 19.6	$ 23.5
County Endowment Fund	0.2	0.3	0.5	0.6	0.8	0.9
0.2% AGR - IEDA & DCA	0.0	0.0	0.1	0.1	0.1	0.1
0.2% AGR - RIIF	0.0	0.0	0.1	0.1	0.1	0.1
Cities and Counties	0.2	0.4	0.6	0.8	1.0	1.2
Total Revenue Reduction	**$ 4.3**	**$ 8.6**	**$ 12.9**	**$ 17.2**	**$ 21.5**	**$ 25.8**

Assumptions/Fiscal Impact for Promotional Play on Sports Wagering (Division XX)

- The sports wagering tax rate of 6.75% applies to sports wagering promotional play.
- The sports wagering promotional play receipts as of January 24, 2021, total $8.0 million. When annualized for FY 2021, sports wagering promotional play receipts are estimated to be $13.7 million. The tax amount collected on sports wagering promotional play receipts for FY 2021 is estimated to be approximately $925,000.
- Sports wagering promotional play receipts on sports wagering are estimated to grow at an annual rate of 3.0% from FY 2022 to FY 2025.

The Act is estimated to reduce tax revenue to the Sports Wagering Receipts Fund by the following amounts:

Figure 7
Estimated Sports Wagering Tax
In Millions

	Current Law	Proposed	Change
FY 2022	$ 14.1	$ 13.2	$ -1.0
FY 2023	14.5	13.6	-1.0
FY 2024	15.0	14.0	-1.0
FY 2025	15.4	14.4	-1.0
FY 2026	15.9	14.8	-1.1
FY 2027	16.4	15.3	-1.1

Division XXI — Targeted Jobs Withholding Pilot Project

Description and Background

The Targeted Jobs Withholding Tax Credit was created in 2006 as an economic incentive tool available in a small number of cities for a limited time. The availability of the credit has been extended several times. The incentive tool is funded through individual income tax withholding. Instead of remitting income tax withholding from certain employees to the State General Fund, the employer forwards the withholding tax to the city to be used to finance a project related to the employer pursuant to an agreement between the employer and the pilot project city. Under current law, the authority for employers and pilot project cities to enter into new agreements expires June 30, 2021. The Act extends the agreement authority by five years, to June 30, 2026.

Assumptions/Fiscal Impact (Division XXI)

- Based on historical award data, it is estimated that $4.0 million will be awarded each year for FY 2022 through FY 2026.
- Based on historical claim data, the credit redemption pattern, in the form of retained withholding tax from employee paychecks, will be:

- Fiscal year of award = 3.0%
- Second fiscal year = 5.0%
- Third through eleventh fiscal year = 8.0% per year.
- Awarded credits that are never redeemed = 20.0%.

Extending the Targeted Jobs Withholding Pilot Project by three additional years is projected to reduce General Fund revenue by the following amounts:

- FY 2022 = $0.1 million
- FY 2023 = $0.3 million
- FY 2024 = $0.6 million
- FY 2025 = $0.8 million
- FY 2026 = $1.0 million
- FY 2027 = $1.0 million

Division XXII — Food Bank Sales Tax Exemption

Description

Exempts from the sales/use tax and use tax the sale or rental of tangible personal property or services furnished to a nonprofit food bank if the property or services are to be used by the nonprofit food bank for a charitable purpose. The exemption does not include specified digital products.

Assumptions/Fiscal Impact (Division XXII)

- Of the six major food banks that serve Iowa, two would not be included in this new exemption. One is based in Omaha (Food Bank for the Heartland) and is assumed to not make significant purchases subject to Iowa sales/use tax. Another (Hawkeye Area Community Action Program) already qualifies for a sales/use tax exemption as a community action agency under Iowa Code section 423.3(79).
- From information provided by the Iowa Food Bank Association, it is estimated that FY 2019 purchases that would qualify for the sales/use tax exemption totaled $3.1 million.
- An estimated 57 additional smaller food banks and food pantries will qualify under the Act. These entities are estimated to represent 5.0% of total purchases of all qualifying entries.
- Growth trends in future fiscal years are based on Consumer Price Index Urban (CPI-U) average estimated increases of 2.34% from FY 2019 to FY 2026.
- The proposed sales tax exemption applies to the State sales/use tax. The exemption also applies to the one percent sales tax that is dedicated to school infrastructure through the Secure an Advanced Vision for Education (SAVE) Fund and to the local option sales tax (LOST).

The new tax exemption for food banks is projected to reduce General Fund revenue by $0.2 million per year, beginning FY 2022. The exemption is also projected to reduce annual SAVE and LOST revenues by a combined $70,000.

Division XXIII — Volunteer Firefighter, EMS, and Reserve Peace Officer Tax Credits

Description and Background

Iowa currently offers an annual $100 nonrefundable individual income tax credit for qualified volunteer firefighters, emergency medical services personnel, and reserve peace officers. The Act increases the maximum tax credit to $250. The change is retroactive to January 1, 2021.

Assumptions/Fiscal Impact (Division XXIII)

- For tax year 2019, 13,000 individuals claimed this tax credit. It is assumed this same number will claim the credit for future tax years.
- The tax credit is not refundable. It is assumed that the average increase in benefit to the taxpayer will equal 96.0% of the $150 tax credit increase ($144).
- The combination of the two assumptions results in a $1.9 million increase in the annual benefit to taxpayers and a State General Fund revenue reduction of the same amount.

Increasing the individual income tax credit for qualified volunteer firefighters, emergency medical services personnel, and reserve peace officers is projected to reduce General Fund revenue by $1.9 million per year, beginning FY 2022.

Division XXIV — Individual Income Tax Checkoffs

Description and Background

Iowa currently provides four income tax checkoffs on the individual income tax form and the checkoffs support:

- The Child Abuse Prevention Program Fund
- The Fish and Game Protection Fund
- The State Fair Foundation
- The Veterans Trust Fund and Volunteer Firefighter Preparedness Fund

Contributions through the checkoffs are voluntary and the contributions do not lower the taxpayer's Iowa income tax liability.

Iowa Code section 422.12E provides that after the same four checkoffs have been included on the Iowa tax return for two consecutive years, the two checkoffs for which the least amount was contributed over the two years are removed from the tax return for the next tax year. The Act makes this automatic removal provision inapplicable to the checkoffs that were available on the tax year 2019 and 2020 tax returns. The Act also extends the availability of the four current checkoffs through the end of tax year 2024.

Assumptions/Fiscal Impact (Division XXIV)

Over the most recent two tax years, the two checkoff options with the lowest contributed amount are the State Fair Foundation and the Veterans Trust Fund and Volunteer Firefighter Preparedness Fund, with $92,000 and $78,000 contributed respectively. The changes in the Act will allow these two checkoffs to continue to be offered through tax year 2024.

Division XXV — Mental Health and Disability Services (MHDS) Funding

Description and Background

The Act changes the way MHDS are funded, from a system based on county property taxes to a 100.0% State-funded system. This Division of the Act is effective upon enactment.

The current MHDS system is a regional system managed by the counties, with State oversight. Counties finance a portion of the system with a county property tax levy that is capped at a per capita dollar amount for each of the 14 MHDS Regions, totaling $116.8 million for FY 2021. The State finances the majority of the services provided through the Medicaid Program. For a complete funding history of the MHDS system back to 1995, please see the related ***Issue Review***.

MHDS Levy. The Act eliminates the MHDS property tax levy over a two-year period, with all county levies reduced to no more than $21.14 per capita for FY 2022 and reduced to $0 beginning in FY 2023.

Per Capita State Appropriations. The Act creates a new Mental Health and Disability Services Regional Services Fund and establishes a General Fund standing appropriation to the Department of Human Services (DHS) for distribution to the MHDS Regions performance-based contracts and the following per capita amounts:

- $15.86 for FY 2022.
- $38.00 for FY 2023.
- $40.00 for FY 2024.
- $42.00 for FY 2025.
- Beginning in FY 2026 and beyond, the previous year's appropriation is multiplied by a growth factor indexed to sales tax growth for the preceding fiscal year, not to exceed 1.5%.

Fund Balances. The Act amends provisions related to county fund balances by requiring all county fund balances to be pooled by the MHDS Region. Regional fund balances are limited to 40.0% of the preceding fiscal year's actual expenditures beginning in FY 2022. In FY 2023, fund balances are limited to 20.0%, and in FY 2024 and beyond, fund balances are limited to 5.0%.

Beginning in FY 2022, State per capita appropriations to an MHDS Region are reduced if the MHDS Region has a fund balance in excess of the fund balance cap specified above. The reduction does not begin until the second half of the fiscal year once fund balances are certified on December 1. The MHDS Regions are also required to pay back any funds received in the first two quarters of the fiscal year if fund balances exceeded the cap. Any funds that are paid back or withheld are distributed to the MHDS Regional Incentive Fund.

MHDS Regional Incentive Fund. The Act creates a new MHDS Regional Incentive Fund to provide additional funding to the MHDS Regions and specifies the criteria in which an MHDS Region may apply for funding.

The Act makes a General Fund appropriation of $3.0 million to the MHDS Regional Incentive Fund for FY 2022. Beginning in FY 2026, any funds in the Fund will be multiplied by a growth factor, not to exceed 3.5% in a fiscal year, equal to the sales tax growth rate for the preceding fiscal year, minus 1.5%. The DHS will make its final decisions on or before December 15 of each year regarding acceptance or rejection of the submissions for incentive funds applications.

To receive funding from the MHDS Regional Incentive Fund, a Regional Administrator must demonstrate that the Region has met the standards outlined in the Region's performance-based contract and have fund balances under the thresholds listed above.

The DHS is required to review all MHDS Regional Incentive Fund expenditures and if the Regional need was less than the Funds provided, the Regions are required to repay the difference back to the Fund.

Polk County. The Act allows for the transfer of both funds and in-kind services from Broadlawns Hospital to Polk County MHDS for fiscal years 2021 through 2024.

Assumptions/Fiscal Impact (Division XXV)

- The FY 2022 MHDS levy will be reduced to $66.7 million in FY 2022 and $0 in FY 2023.
- Based on population trends from 2015 through 2019, population increases are estimated to be 0.3% in 2020 through 2025.
- The MHDS per capita growth rate appropriation is estimated to be 1.5% for FY 2026 through FY 2028.
- It is not possible to estimate funds available in the MHDS Regional Incentive Fund beyond what is appropriated by the State in FY 2022 and FY 2023 due to the uncertainty of future county fund balances and amounts counties will be required to send back to the Fund.

Division XXVI — Property Tax Replacement Payments

Description and Background

2013 Iowa Acts, chapter 123 (State and Local Taxation), established a set commercial and industrial taxable value rollback of 90.0000%, a reduction from the 100.000% rollback usually experienced by those property classes. The 2013 Act also established a standing appropriation designed to reimburse local governments for the property tax revenue loss that results from the taxable value reduction. Iowa Code section 441.21A established the standing appropriation for the reimbursement to local governments (backfill) and limits the total amount of the annual appropriation, beginning with FY 2017, to no more than the amount of the appropriation for FY 2016. Since FY 2017, the annual backfill appropriation has been limited to $152.1 million. The revenue that local governments receive from the State for the backfill is treated like property tax revenue for local government finance purposes.

The Act provides that beginning with the FY 2023 payment, the General Fund standing appropriation for commercial and industrial property tax replacement for cities and counties will be phased out in four or seven years, depending on how the tax base of the city or county grew relative to the rest of the State since FY 2014. Cities and counties where the tax base grew at a faster rate than the statewide average from FY 2014 through FY 2021 will have the backfill phased out over a four-year period from FY 2023 to FY 2026, while those that grew at a rate less than the statewide average will have the backfill phased out over a seven-year period from FY 2023 to FY 2029. School district backfill payments will be eliminated after FY 2022. Taxing authorities that are not schools, cities, or counties will have their backfill payment phased out over seven years.

After the change, the reimbursement amount received by each taxing authority that is not a school district will be a percentage of the reimbursement the taxing authority received in FY 2022, with the percentage decreasing until phased out completely for the taxing authority by either FY 2026 or FY 2029.

Assumptions/Fiscal Impact (Division XXVI)
The Department of Management (DOM) estimated the impact of the changes to the commercial and industrial property tax replacement backfill using actual taxable amounts by taxing authority for FY 2014 and FY 2021, along with actual backfill amounts received for FY 2021. **Figure 8** provides the estimated backfill amounts by local government type under current law and under the proposed change as estimated by the DOM. The final line in the table represents both the reduction in local government revenue and the reduction in the State General Fund appropriation for commercial and industrial property tax reimbursement backfill.

Figure 8

Estimated Change to the General Fund Appropriation for Commercial and Industrial Property Tax Replacement

In Millions

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Schools								
Current Law	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7	$ 59.7
Proposal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7	$ -59.7
Cities								
Current Law	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4	$ 52.4
Proposal	44.6	36.8	28.9	21.0	13.1	8.8	4.4	0.0
Change	$ -7.8	$ -15.6	$ -23.5	$ -31.4	$ -39.3	$ -43.6	$ -48.0	$ -52.4
Counties								
Current Law	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6	$ 29.6
Proposal	24.8	20.0	15.2	10.3	5.5	3.7	1.8	0.0
Change	$ -4.8	$ -9.6	$ -14.4	$ -19.3	$ -24.1	$ -25.9	$ -27.8	$ -29.6
Other Local Governments								
Current Law	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4	$ 10.4
Proposal	9.1	7.8	6.5	5.2	3.9	2.6	1.3	0.0
Change	$ -1.3	$ -2.6	$ -3.9	$ -5.2	$ -6.5	$ -7.8	$ -9.1	$ -10.4
Total								
Current Law	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1	$ 152.1
Proposal	78.5	64.6	50.6	36.5	22.5	15.1	7.5	0.0
Change	$ -73.6	$ -87.5	$ -101.5	$ -115.6	$ -129.6	$ -137.0	$ -144.6	$ -152.1

The revenue reduction for individual school district levies, totaling $59.7 million per year starting FY 2023, is estimated to be:

- General fund levy = $-41.8 million
- Instructional support levy = $-3.6 million
- Management levy = $-4.0 million
- Amana library levy = $-0.0 million
- Voted Physical Plant and Equipment Levy (PPEL) = $-3.8 million
- Regular PPEL = $-1.3 million
- Public Education and Recreation Levy (PERL) = $-0.1 million
- Debt service levy = $-5.0 million

Division XXVII — School Foundation Percentage

Description

Beginning in FY 2023, the school foundation aid level increases from 87.5% to 88.4% to offset the revenue from the elimination of the commercial and industrial property tax replacement backfill payments. Since FY 1997, the regular program foundation level has been set at 87.5% of the State cost per pupil and is comprised of a uniform levy of $5.40 per $1,000 of taxable valuation statewide and State aid from the General Fund.

Assumptions/Fiscal Impact (Division XXVII)

- Beginning in FY 2023, the regular program foundation level used for calculating State aid for school districts is increasing from 87.5% to 88.4%. This will increase the amount of State aid going to the foundation level and decrease the additional General Fund levy.
- Under current law, the State cost per pupil for FY 2023 and future fiscal years will remain at $7,227.
- The foundation level will increase from $6,324 per pupil in FY 2022 to $6,389 per pupil in FY 2023.
- The Property Tax Replacement Payment (PTRP) will remain at $153 per pupil.

Division XXVIII — Elderly Property Tax Credit

Description

The Act expands the existing Homestead Property Tax Credit for Elderly and Disabled to create a homestead adjustment property tax credit to offset increases in property tax levies of homesteads owned by persons who are at least 70 years of age and whose annual household income is not more than 250.0% of federal poverty guidelines published by the U.S. Department of Health and Human Services. The Act would apply to claims filed on or after January 1, 2022, for assessment years beginning on or after January 1, 2021. The Act exempts the credit expansion from the provisions of Iowa Code section 25B.7(1) (State requirement to fully fund changes to property tax credits).

Assumptions/Fiscal Impact (Division XXVIII)

- The average assessed value of an eligible homestead is assumed to be $127,500 for AY 2020/FY 2022, and the average is assumed to increase 2.0% per year.
- The FY 2020 residential rollback is 56.4094%, and this rollback percentage is used for all projection years.
- The statewide average residential property tax rate for FY 2021 is $34.44 per $1,000 of taxed value, and this rate is used for all projection years.
- The combination of the first three assumptions results in a projected property tax increase of about $50 per year for the average eligible homestead.
- The Department of Revenue estimates that the number of homesteads owned by persons aged 70 or over with household income of less than 250.0% of the federal poverty level is 106,220 for FY 2022. The LSA estimates that 95.0% of eligible homestead owners will apply for the property tax credit. The LSA further estimates that a number equal to 2.7% of the FY 2022 estimate of 106,220 (2,868) claims will be received each year from homestead owners turning 70 years of age that year.
- The current elderly property tax credit component has a cost to the State of approximately $4.7 million per year. This estimate assumes that amount will remain constant in future years, and further assumes that 85.0% of the credit calculation for the proposed expansion represents homestead owners who are eligible under current law ($4.0 million of the $4.7 million).
- Since the Act makes the expansion of the property tax credit not subject to the requirement that the State fully fund new or expanded property tax credits (Iowa Code section 25B.7(1)), the entire property tax decrease will result in reduced local government property tax revenue. The combination of the above assumptions results in the following local government property tax revenue reductions for the first seven years of the new credit:
    - FY 2023 = $1.1 million
    - FY 2024 = $6.2 million
    - FY 2025 = $11.8 million
    - FY 2026 = $17.5 million
    - FY 2027 = $23.5 million
    - FY 2028 = $29.7 million
    - FY 2029 = $36.2 million
- The local government revenue reduction is projected to continue to increase until the Iowa population of homeowners aged 70 and over begins to decrease.

Fiscal Impact — State General Fund Revenue

Figure 9 provides a summary of the projected changes in General Fund revenue by Act provision. Please note that the amounts listed for Division I (triggers removed) only reflect the revenue reduction associated with moving the implementation of the contingent individual income tax system forward one tax year, to tax year 2023. Under current law, the contingent system is assumed to become effective starting tax year 2024.

Figure 9

Projected General Fund Revenue Changes by Provision
In Millions

Division	Provision	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Div. I	Triggers Removed Ind. Inc.	$ 0.0	$ 0.0	$ -154.6	$ -160.2	$ -30.1	$ -8.4	$ -8.0
Div. I	Triggers Bank/Franchise	0.0	0.0	0.0	-19.9	0.0	0.0	0.0
Div. II	Child Tax Credits	-0.6	-16.2	-4.2	-4.5	-4.9	-5.1	-5.1
Div. III	COVID-19 Grant Exempt.	-9.2	-1.0	0.0	0.0	0.0	0.0	0.0
Div. IV	Paycheck Protection	-4.7	-0.6	0.0	0.0	0.0	0.0	0.0
Div. V	Inheritance Tax	-0.5	-15.1	-34.1	-54.5	-76.6	-99.7	-107.4
Div. VI	Housing Trust Fund	0.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Div. XIII	Workforce Housing	0.0	-5.3	-9.0	-10.4	-10.0	-10.0	-10.0
Div. XIV	Redevelopment Credit	0.0	-0.9	-3.4	-6.8	-10.0	-13.0	-16.0
Div. XVII	Bonus Depreciation	0.0	-28.9	-20.9	-14.8	-7.7	-2.0	9.0
Div. XVIII	Interest Deduction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Div. XIX	Beginning Farmer Tax Credit	0.0	0.0	-0.7	-1.1	-1.3	-1.4	-1.6
Div. XXI	Targeted Jobs Withholding	0.0	-0.1	-0.3	-0.6	-0.8	-1.0	-1.0
Div. XXII	Food Bank Sales Tax	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Div. XXIII	Volunteer Tax Credit	0.0	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
	Total	$ -15.0	$ -74.2	$ -233.3	$ -278.9	$ -147.5	$ -146.7	$ -146.2

Fiscal Impact — State General Fund Appropriations

The Divisions of the Act that will result in changes to projected State General Fund appropriation amounts, when compared to estimates for current law, are shown in **Figure 10**.

Figure 10

Projected General Fund Appropriations Increases (Decreases)
In Millions

Division	Provision	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Div. XXV	MHDS Per Capita	$ 50.0	$ 120.3	$ 126.9	$ 133.7	$ 136.0	$ 138.4	$ 140.9	$ 143.4	$ 145.9
Div. XXV	MHDS Incentive	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Div. XXVI	PTR Nonschools	0.0	-13.9	-27.9	-42.0	-55.9	-69.9	-77.4	-85.0	-92.4
Div. XXVI	PTR Schools	0.0	-59.7	-59.7	-59.7	-59.7	-59.7	-59.7	-59.7	-59.7
Div. XXVII	School Aid	0.0	65.4	60.2	60.3	60.0	59.7	59.4	59.1	58.8
	Total	$ 53.0	$ 112.1	$ 99.5	$ 92.3	$ 80.4	$ 68.5	$ 63.2	$ 57.8	$ 52.6

PTR = Property Tax Replacement

Fiscal Impact — Local Government Revenue

Iowa allows school districts to establish a local option income surtax for schools. The surtax is calculated as a percent of individual income tax liability, prior to any adjustment for refundable tax credits. The provisions of this Act that alter income subject to individual income tax, or alter nonrefundable income tax credits, also impact the calculation of the surtax. The statewide average surtax rate is approximately 3.0% of tax liability. Many of the provisions of the Act lower individual income tax liability, so most of the provisions also reduce the statewide yield realized through the local option income surtax for schools.

Division XXVI of the Act phases out the State payment to local governments for reimbursement of a portion of the property tax reduction associated with the implementation of a taxable value rollback to 90.0000% for commercial, industrial, and railroad property. That reimbursement currently totals $152.1 million per year and is funded by a standing limited appropriation from the State General Fund. While the Act makes new adjustments to State school funding in order to ameliorate the revenue reduction for local schools, the Act does not provide for any form of replacement funding for the other levels of local government (cities, counties, community colleges, etc.).

Division XXVIII of the Act expands the existing Homestead Property Tax Credit for Elderly and Disabled. The Division also makes inactive an Iowa Code provision that would require the State to fund the revenue reduction that will result from the property tax reduction. The local government revenue reduction (schools, cities, counties, community colleges, etc.) is projected to reach $36.2 million by FY 2029 and continue to increase in the future.

The revenue reductions associated with the combination of Divisions XXVI and XXVIII for local governments that are not schools are projected to total $15.0 million for FY 2023 and grow to approximately $134.0 million by FY 2030. In order to adjust annual budgets to compensate for the revenue reduction, the impacted local governments will need to set property tax rates that are higher than would otherwise be the case, increase revenue from other sources (fees, fines, or local option taxes for example), and/or reduce expenditures below the level that would otherwise be supported.

Fiscal Impact — Estimated Property Tax Reduction for Property Taxpayers

Three Divisions of the Act are projected to reduce property taxes owed by property taxpayers, when compared to estimates for current law, are shown in **Figure 11**.

Figure 11

Estimated Property Tax Reductions by Division

In Millions

Division	Provision	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Div. XXV	MHDS Levy *	$ -50.0	$ -117.0	$ -117.2	$ -117.4	$ -117.6	$ -117.8
Div. XXVII	School District General Fund	0.0	-19.3	-23.0	-23.1	-22.8	-22.8
Div. XXVIII	Elderly Prop. Tax Credit	0.0	-1.1	-6.2	-11.8	-17.5	-23.5
	Total	$ -50.0	$ -137.4	$ -146.4	$ -152.3	$ -157.9	$ -164.1

* Reduction estimate is compared to the maximum allowable levy and is more than what counties actually levied in FY 2021.

Effective Date

The Act is generally effective July 1, 2021. The following provisions have different effective and/or retroactive applicability dates:

- Division I (Future Tax Contingencies). Effective January 1, 2023.
- Division II (Child Dependent and Development Tax Credits). Applies retroactively to January 1, 2021.
- Division III (COVID-19 Related Grants — Taxation). Effective upon enactment and applies retroactively to March 17, 2020.
- Division IV (Federal Paycheck Protection Program). Effective June 16, 2021.
- Division V (State Inheritance Tax). Effective upon enactment and applies retroactively to the estates of decedents dying on or after January 1, 2021.
- Division VIII (Telehealth). Effective upon enactment and applies retroactively to qualified telehealth services provided on or after January 1, 2021.
- Division IX (High Quality Jobs and Renewable Chemical Production Tax Credits). Effective June 16, 2021.
- Division XIV, sections 41 and 43 (Brownfields and Grayfields). Effective June 16, 2021.
- Division XVI (Disaster Recovery Housing Assistance). Effective June 16, 2021.
- Division XVII (Bonus Depreciation). Applies retroactively to January 1, 2021.
- Division XVIII (Business Interest Expense Deduction). Applies retroactively to January 1, 2021.
- Division XIX (Beginning Farmer Tax Credit). Effective January 1, 2022.
- Division XXV (Mental Health Funding). Effective June 16, 2021.
- Division XXIII (Emergency Volunteer — Tax Credit). Applies retroactively to January 1, 2021.
- Division XXVI, sections 110 and 111 (Commercial and Industrial Property Tax Replacement Payments). Effective July 1, 2029.
- Division XXVII, section 122 (School Foundation Percentage). Effective July 1, 2022.

Enactment Date

This Act was approved by the General Assembly on May 18, 2021, and signed by the Governor on June 16, 2021.

Sources

Department of Revenue
Economic Development Authority
Department of Education
Department of Management
Iowa Food Bank Association
Wellmark
Legislative Services Agency analysis

General Fund Fiscal Impact Estimates of 2021 Approved Legislation

Act	Short Title/Provision	Revenue Changed/Tax Type	FY 2021	FY 2022	FY 2023
HF 367	Preneed Burial Trusts, Income Tax Exemption Act	Personal Income Tax	$ 0	$ - 200,000	$ - 300,000
HF 588	Hoover Presidential Library Tax Credit Act	Personal Income Tax	0	- 2,200,000	- 1,600,000
HF 711	Probate Fees Act	Other	0	- 2,870,000	- 5,663,000
HF 844	Model Business Corporations Act	Fees, Licenses & Permits	0	900,000	0
HF 847	Education Programs, Tax Credits Act				
	Teacher Expense Deduction	Personal Income Tax	0	- 410,000	- 410,000
	Tuition and Textbook Tax Credit	Personal Income Tax	0	- 11,100,000	- 11,100,000
	School Tuition Organization Tax Credit	Personal Income Tax	0	- 3,400,000	- 3,400,000
HF 861	Justice System Appropriations Act	Other	0	- 100,000	- 100,000
HF 871	Economic Development Appropriations Act				
	Workforce Dev. Account Job Training	Personal Income Tax	0	- 1,750,000	- 1,750,000
	Beer and Liquor Control Fund Transfer	Beer and Liquor Control Fund	0	- 1,000,000	- 1,000,000
SF 367	Criminal Surcharge, Court Fees Act	Judicial Fines and Fees	- 350,000	- 700,000	- 700,000
SF 619	Taxation and Other Provisions Act				
	Repeal of Income Tax Triggers	Personal Income Tax	0	0	- 154,600,000
	Child Tax Credits	Personal Income Tax	- 600,000	- 16,200,000	- 4,200,000
	COVID-19 Grant Exemption	Corporate Income Tax	- 9,200,000	- 1,000,000	0
	Paycheck Protection Taxation	Corporate Income Tax	- 4,700,000	- 600,000	0
	Inheritance Tax Phase-out	Inheritance Tax	- 500,000	- 15,100,000	- 34,100,000
	Housing Trust Fund - Real Estate Transfer Tax	Miscellaneous Tax	0	- 4,000,000	- 4,000,000
	Workforce Housing Tax Credits	Corporate Income Tax	0	- 5,300,000	- 9,000,000
	Redevelopment Tax Credit	Personal Income Tax	0	- 900,000	- 3,400,000
	Bonus Depreciation	Corporate Income Tax	0	- 28,900,000	- 20,900,000
	Beginning Farmer Tax Credit	Personal Income Tax	0	0	- 700,000
	Targeted Jobs Withholding Tax Credit	Personal Income Tax	0	- 100,000	- 300,000
	Food Bank Sales Tax Exemption	Sales Tax	0	- 200,000	- 200,000
	Volunteer Tax Credit	Personal Income Tax	0	- 1,900,000	- 1,900,000
Total Revenue Adjustments			$ - 15,350,000.0	$ - 97,030,000.0	$ - 259,323,000.0

Note: The totals listed on the above table may not tie to the totals on the General Fund Revenue Adjustment table due to rounding.