

# **Ways and Means Acts – Fiscal Notes**

**General Fund Fiscal Impact Estimates of 2017 Approved Legislation**

<b>Bill</b>	<b>Short Title/Provision</b>	<b>Revenue Changed/Tax Type</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
HF 2433	Manufacturing Consumables	Sales Tax	\$	\$ 13,500,000	\$ 13,500,000
HF 2433	IRC Update and Manufacturing Consumables	Personal Income Tax	-97,600,000	10,100,000	16,200,000
HF 2436	Real Estate Appraisal Fees	Fees, Licenses, and Permits		-75,000	-150,000
HF 2452	Geothermal Income Tax Credit - Residential	Personal/Corporate Income Tax			-1,500,000
HF 2468	Solar Energy Tax Credit	Personal/Corporate Income Tax			-2,500,000
HF 2468	Adoption Tax Credit Expansion	Personal Income Tax			-300,000
SJR 2007	BoEE Fee Increase	Fees, Licenses, and Permits		-31,000	-31,000
SF 2300	Chemical Production Tax Credit	Personal/Corporate Income Tax			-600,000
SF 2301	College Savings Accounts – Nonprofits	Personal Income Tax			-38,000
SF 2306	Out-of-State Business Disaster Response	Personal/Corporate Income Tax		-189,000	-324,000
SF 2309	Biofuel Tax Incentives	Personal/Corporate Income Tax			-900,000
SF 2312	Baseball Sales Tax Rebate	Sales Tax Refunds			-367,000
SF 2314	Food Inspection Fees from DIA to General Fund	Fees, Licenses, and Permits		-700,000	-700,000
<b>Total General Fund Revenue Adjustments</b>			<b>\$ -97,600,000</b>	<b>\$ 22,605,000</b>	<b>\$ 22,290,000</b>

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

---

**HF 2433** – IRC Update and Manufacturing Consumables Act (LSB6046HV)

Analyst: Jeff Robinson (Phone: 515-281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))

Fiscal Note Version – Final Action

---

**Description**

**House File 2433** has three functions. This Act:

- Generally conforms Iowa's tax laws with changes to the federal Internal Revenue Code (IRC) made since January 1, 2015. The coupling is temporary and applies only to tax year 2015. This Act does not couple with the federal tax provision known as "bonus depreciation." The change is effective on enactment and applies retroactively to January 1, 2015.
- Rescinds administrative rules promulgated by the Iowa Department of Revenue in 2015 and scheduled to take effect July 1, 2016. The rules relate to the application of the state sales/use tax to manufacturing inputs (generally supplies and replacement parts) and to the application of the state sales/use tax to certain tangible personal property that becomes part of real property (land and buildings). This action is effective on enactment.
- Provides a sales/use tax exemption for the purchase of items used in certain manufacturing, research and development, data processing or storage, or recycling activities. The exemption generally relates to manufacturing supplies and replacement parts. This change applies to purchases made on or after July 1, 2016.

**Background — IRC Update**

Since January 1, 2015, the only significant federal tax changes were enacted as part of [H.R. 2029](#) (Consolidated Appropriations Act, 2016). This federal Act became law December 18, 2015. While many of the provisions were made a permanent part of the federal IRC, some tax provisions were extended through 2016 and others through tax year 2019. The extended provisions will require future federal action if they are to continue beyond the new expiration date.

Of the newly-permanent federal tax provisions, the most significant from a fiscal impact perspective is the extension and enhancement of favorable depreciation accounting known as "section 179 expensing." This provision allows business taxpayers (including corporate taxpayers and business entities taxed through the individual income tax) to write off additional depreciation in the year a qualified depreciable asset is placed in service. Since the provision accelerates the claiming of depreciation, the provision reduces taxes owed in the first year, but increases taxes owed in later years.

The one federal change that this Act does not conform with is known as "bonus depreciation." Bonus depreciation provides a similar benefit for more expensive depreciable assets. Iowa has not coupled with federal bonus depreciation provisions in the past.

The IRC conformity impact estimates were calculated by the Iowa Department of Revenue using national estimates available from the Joint Committee on Taxation and information available from the Department's database of Iowa income tax returns and from the Department's microsimulation tax model. The estimated impact of the coupling provisions of this Act are provided in **Table 1**.

	Section 179 Expensing	Other Provisions	Total Net Revenue Increase (Decrease)
FY 2016	\$ -77.8	\$ -19.8	\$ -97.6
FY 2017	18.5	-8.4	10.1
FY 2018	15.9	0.3	16.2
FY 2019	11.7	0.0	11.7
FY 2020	9.5	0.0	9.5
FY 2021	8.2	0.0	8.2
FY 2022	6.7	0.0	6.7
FY 2023	1.2	0.0	1.2

**Background — Manufacturing Consumables**

Division II of this Act rescinds Department of Revenue administrative rules scheduled to take effect July 1, 2016. Those rules relate to definitions and qualifications for existing sales/use tax exemptions. The rules have a negative fiscal impact on State General Fund revenue. That impact was considered by the December Revenue Estimating Conference (REC) and incorporated into the General Fund estimate for FY 2017. The rules also have a negative fiscal impact on school district, city, and county revenue. The state and local revenue reductions associated with the Department of Revenue rule change and estimated by the REC are presented in **Table 2**. This Act negates the negative revenue impacts associated with the administrative rules and displayed in **Table 2**.

**Table 2**  
**Impact on State and Local Revenue**  
**Department of Revenue Rules - In Millions of Dollars**

	State General Fund	School Infrastructure	Local Option Taxes	Total Tax Reduction, State and Local Taxes Combined
FY 2016	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
FY 2017	-34.8	-7.0	-6.1	-47.9
FY 2018	-35.9	-7.2	-6.3	-49.4
FY 2019	-37.1	-7.4	-6.5	-51.0
FY 2020	-38.3	-7.7	-6.7	-52.7
FY 2021	-39.6	-7.9	-6.9	-54.4

In addition, Division II replaces the rescinded administrative rules with sales/use tax exemption language dealing with the same subject, but with a more limited effect. This Act expands a current tax exemption to include some items considered supplies and replacement parts (manufacturing consumables). This Act does not change any tax exemption related to tangible personal property that becomes part of real property. The Department of Revenue estimates that the expansion of the current sales/use tax exemption for manufacturing consumables will reduce state and local revenue by the amounts listed in **Table 3**:

	State General Fund	School Infrastructure	Local Option Taxes	Total Tax Reduction, State and Local Taxes Combined
FY 2016	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
FY 2017	-21.3	-4.3	-3.6	-29.2
FY 2018	-22.4	-4.5	-3.8	-30.7
FY 2019	-23.5	-4.7	-4.0	-32.2
FY 2020	-24.5	-4.9	-4.1	-33.5
FY 2021	-25.4	-5.1	-4.3	-34.8

**Fiscal Impacts**

**State General Fund** — The impact of this Act on State General Fund net revenue is the combination of **Tables 1, 2, and 3** above, with the IRC changes and the enactment of the sales tax exemption acting to reduce projected General Fund revenue and the administrative rules rescission acting to increase revenue. The estimated General Fund revenue impact of each provision is summarized in **Table 4**.

**Table 4**  
**Combined State General Fund Impact**  
**In Millions**

	IRC Coupling	Administrative Rules Rescinded	Manufacturing Consumables Sales Tax Exemption	Total General Fund Impact
FY 2016	\$ -97.6	\$ 0.0	\$ 0.0	\$ -97.6
FY 2017	10.1	34.8	-21.3	23.6
FY 2018	16.2	35.9	-22.4	29.7
FY 2019	11.7	37.1	-23.5	25.3
FY 2020	9.5	38.3	-24.5	23.3
FY 2021	8.2	39.6	-25.4	22.4
FY 2022	6.7	40.9	-26.2	21.4
FY 2023	1.2	42.2	-27.1	16.3

Iowa tax law allows taxpayers to subtract federal income taxes paid from their Iowa income (federal deductibility). Therefore, when Congress enacts legislation that reduces federal taxes, the income is subject to Iowa income tax increases. This General Fund revenue impact is automatic and does not require legislative action. The estimated positive impacts on State General Fund revenue are provided below. The amounts are provided for reference purposes and do not represent an additional fiscal impact of this Act. The amounts were incorporated into the March Revenue Estimating Conference estimates.

- FY 2016 = \$2.0 million
- FY 2017 = \$76.4 million
- FY 2018 = \$42.4 million
- FY 2019 = \$28.6 million
- FY 2020 and after = approximately \$30.8 million per year

**Local Option Income Surtax Revenue** — Reducing Iowa individual income taxes also reduces the yield from the local option income surtax for schools. Statewide, that surtax produces an amount equal to approximately 3.0% of the state individual income tax revenue. The IRC coupling provisions of this Act will reduce the statewide surtax yield by \$2.6 million in FY 2016 and increase the yield by \$350,000 per year from FY 2017 through FY 2023.

**Local Government Sales Tax Revenue** — Rescinding the administrative rules and enacting the sales tax exemption provisions also increases the amount of money raised by the state sales tax that is in turn transferred to school districts for school infrastructure purposes and it also increases local option sales tax revenue collected by local governments. The combination of the rules rescission and the enacted sales tax exemption will increase annual school infrastructure revenue \$2.7 million and increase annual local option sales tax collections \$2.5 million each fiscal year. Both impacts begin with FY 2017.

### **Enactment Date**

This Act was approved by the General Assembly on March 15, 2016, and signed by the Governor on March 21, 2016.

### **Effective Dates**

The provisions of this Act rescinding Department of Revenue administrative rules related to manufacturing consumables were effective upon enactment.

Division I, temporarily coupling Iowa's tax code to the federal IRC, was effective upon enactment and applied retroactively to the include tax year 2015.

The remainder of this Act is effective July 1, 2016.

### **Sources**

Iowa Department of Revenue  
United States Congress Joint Committee on Taxation  
Revenue Estimating Conference

---

**HF 2436 – Real Estate Appraisal Management – Registration and Supervision Act (LSB5368HZ)**

Analyst: Christin Mechler (Phone: 515-281-6561) ([christin.mechler@legis.iowa.gov](mailto:christin.mechler@legis.iowa.gov))

Fiscal Note Version – Final Action

---

**Description**

**House File 2436** requires the superintendent of the Division of Banking (DOB) of the Department of Commerce to act as the administrator of and to regulate appraisal management companies (AMCs). The bill requires the administrator to establish licensing fees for AMCs and to deposit these fees in the Commerce Revolving Fund (CRF). **HF 2436** also modifies provisions applicable to the Iowa Real Estate Appraiser Examining Board, requiring the Board's collected fees to also be deposited in the CRF as well.

**Background**

The Professional Licensing Bureau (PLB) is a part of the Division of Banking of the Department of Commerce. The PLB licenses, examines, and regulates accountants, architects, engineers and land surveyors, real estate brokers, agents, and appraisers, as well as interior designers. Pursuant to Iowa Code section **546.10**, the PLB is allowed to retain 85.0% of increased license fees from the above-listed boards, while the remaining fee revenue is deposited in the General Fund. The Bureau also receives an annual appropriation from the General Fund. The portion of the General Fund appropriation that is allocated to each licensing entity by the PLB is based on the size of the licensing entity.

**Assumptions**

- In addition to establishing a new license category for AMCs, the PLB will also need to establish new license and registration fees through administrative rule. The Bureau estimates that the new license fee for an AMC will be \$1,000 annually, with 80 AMCs registering in FY 2017 and 90 AMCs registering in FY 2018.
- The number of active individual appraiser licenses will remain the same for FY 2017 and FY 2018. The PLB estimates 1,100 licenses for certified appraisers and 115 licenses for associate appraisers. The number of inactive appraiser licenses is also estimated to remain the same at 35 licenses for inactive certified appraisers and 15 licenses for inactive associate appraisers.
- According to the PLB, the regulation of a new license category will result in the hiring of one additional Executive Officer (EO), as well as one additional Licensing Specialist (LS). Total cost for an additional EO is estimated to amount to approximately \$65,000 annually (salary and benefits). Total cost for an additional LS is estimated to amount to approximately \$43,000 annually (salary and benefits).
- In estimating the fiscal impact resulting from the passage of **HF 2436**, the PLB assumes it will continue to receive an annual General Fund appropriation of approximately \$601,000. Based on FY 2015 data, the PLB collected approximately \$229,000 in total fees from appraisers. Approximately \$79,000 was retained by the Bureau pursuant to Iowa Code section **546.10**, resulting in a deposit of approximately \$150,000 to the General Fund. The PLB estimates that \$70,000 of the annual General Fund appropriation was allocated to the Real Estate Appraiser Examining Board, leaving a net General Fund impact of approximately \$80,000.

**Fiscal Impact**

House File 2436 is estimated to reduce General Fund revenue by approximately \$150,000 annually, as appraiser licensing fees currently deposited in the General Fund will be deposited in the Commerce Revolving Fund (CRF) instead. Additional revenue resulting from the licensing of AMCs will also be deposited in the CRF. The additional funds in the CRF will be available to offset the annual cost of \$108,000 for new staff administering and regulating AMCs.

The table below shows the total amount of fees collected by the PLB from appraisers for years FY 2012 to FY 2014.

<b>Real Estate Appraiser Licensing Fee Revenue - Current Law</b>				
	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>
General Fund Deposit	\$ 141,240	\$ 146,891	\$ 162,752	\$ 150,710
85.0% of License Fee Increase Maintained by PLB (Iowa Code section 546.10)	75,994	77,010	83,606	78,911
Assessed Fines	<u>2,553</u>	<u>4,608</u>	<u>3,765</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 219,787</u></b>	<b><u>\$ 228,509</u></b>	<b><u>\$ 250,123</u></b>	<b><u>\$ 229,621</u></b>
Average General Fund Deposit, FY 2011 - FY 2015	\$ 150,400			

**Enactment Date**

The Act was passed by the General Assembly on April 27, 2016, and is currently waiting to be signed by the Governor.

**Effective Date**

The Act takes effect January 1, 2017.

**Sources**

Professional Licensing Bureau  
Legislative Services Agency analysis

---

**HF 2445** – Casino Promotional Play Taxation Act (LSB6033HV)

Analyst: Christin Mechler (Phone: 515-281-6561) ([christin.mechler@legis.iowa.gov](mailto:christin.mechler@legis.iowa.gov))

Fiscal Note Version – Final Action

---

**Description**

**House File 2445** establishes a limit on the state wagering tax collected on adjusted gross receipts (AGR) for redeemed promotional play credits at Iowa casinos by amending the method of calculating the wagering tax on gambling receipts as provided in Iowa Code section **99F.11**. The Act defines “adjusted gross receipts” as gross receipts less winnings paid to wagerers, not including promotional play receipts received after the date in any fiscal year that the Racing & Gaming Commission (IGRC) determines that the wagering tax on promotional play receipts exceeds \$25.82 million. The bill defines “promotional play receipts” as the total wagered on gambling games with tokens, chips, electronic credits, or other forms of cashless wagering provided by a licensee without an exchange of money.

**Background**

Current law requires the wagering tax to be calculated on the total amount of gross receipts reduced by paid-out winnings, or total AGR. Redeemed promotional play revenue is included in the calculation of AGR. Current gambling revenues are taxed by the state based on AGR received from gambling games. The first \$1.0 million of gross receipts are taxed at a rate of 5.0% and the next \$2.0 million of gross receipts are taxed at a rate of 10.0%. The tax rate imposed on gross receipts that exceed \$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 are taxed at a rate of 22.0%.

According to the Revenue Estimating Conference (REC) held on March 16, 2016, total wagering taxes remitted to the state for FY 2016 are estimated to be \$288.8 million. For FY 2017, the total wagering taxes remitted are estimated to be \$291.7 million.

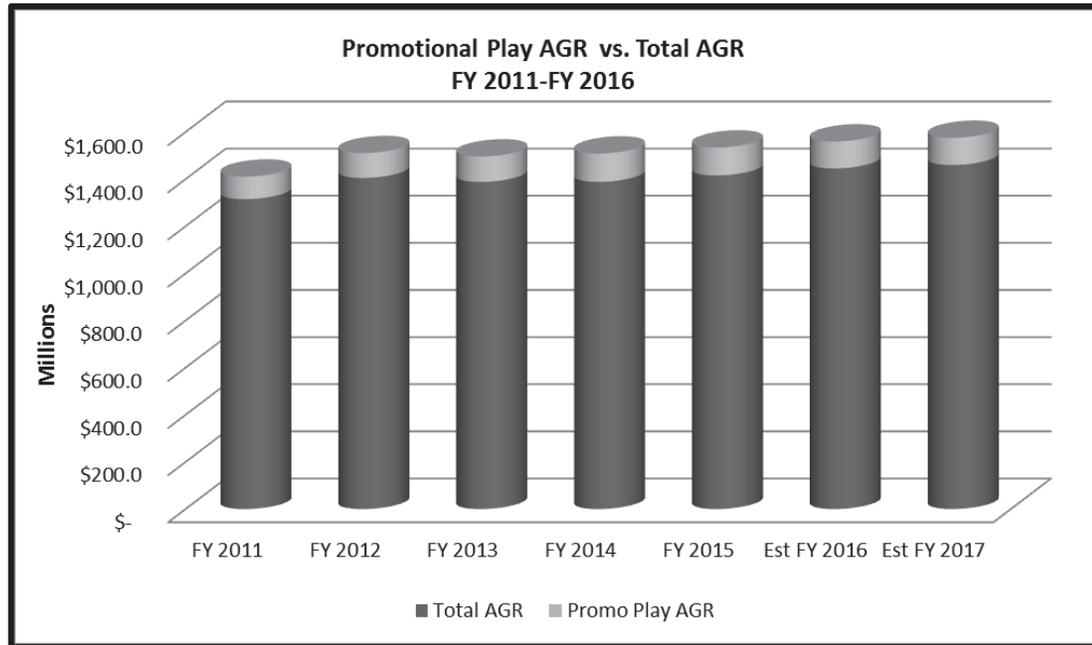
There are currently 19 gambling entities operating in Iowa. Of these 19 entities, two are taxed at 24.0% and 17 are taxed at 22.0%. The distribution of the taxes collected on the total AGR of the 19 gambling entities is as follows:

- 20.0% to 22.0% to the State of Iowa for deposit in various funding sources, including \$55.0 million to the Debt Service Reserve Fund (IJOBS Bond), \$3.8 million to the Federal Subsidy Holdback Fund, \$15.0 million to the Vision Iowa Fund, \$66.0 million to the Skilled Worker Job Creation Fund, and the remainder to the Rebuild Iowa Infrastructure Fund (RIIF).
- 1.0% to the city and county where the casino is located. The percentage is split evenly between the county and the city.
- 0.8% is deposited in the County Endowment Fund; and 0.2% is divided equally between the RIIF and the Iowa Economic Development Authority (IEDA) for tourism programs.

**Assumptions**

- The AGR of Iowa’s 19 casinos is estimated to be \$1.445 billion in FY 2016 and \$1.460 billion in FY 2017. These estimates are based on the March 16, 2016 meeting of the REC.

- Redeemed promotional play receipts typically account for approximately 7.9% of total AGR. This percentage is based on a five-year average for the period of FY 2011 to FY 2015. During that period, the total promotional play percentage fluctuated between 7.0% and 8.7%. The following chart depicts promotional play receipts as a percentage of total AGR.



Source: Legislative Services Agency (LSA), Iowa Racing and Gaming Commission (IRGC)

- The wagering tax limit of \$25.8 million is based on the assumption that total promotional play receipts will remain approximately 7.9% annually for FY 2016 and FY 2017.
- The wagering tax collected on promotional play receipts will likely remain approximately \$25.8 million annually.
- Assuming that [HF 2445](#) were to be enacted, casinos may make the business decision to increase the amount of promotional play issued since it will not be taxed after the limit of \$25.8 million has been reached. If additional credits are issued and subsequently redeemed, this could potentially increase the total AGR and the industry's profit.

### **Fiscal Impact**

[House File 2445](#) will have no impact on the State General Fund and is expected to have little to no fiscal impact on the RIIF in FY 2016 and FY 2017. The fiscal impact for subsequent years cannot be determined.

**Enactment Date**

The Act was passed by the General Assembly on April 19, 2016, and signed by the Governor on April 21, 2016. The Act takes effect July 1, 2016.

**Effective Date**

This Act takes effect July 1, 2016.

**Sources**

Legislative Services Agency analysis  
Iowa Racing and Gaming Commission data

---

HF 2464 – Petroleum Tanks Fund and Financing Program Act (LSB5257HZ.1)

Analyst: Jeff Robinson (Phone: 515-281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))

Fiscal Note Version – Final Action

---

### **Description**

[House File 2464](#) relates to the Iowa Comprehensive Petroleum Underground Storage Tank Fund and Board (UST Fund and UST Board) and to related programs and program financing. The bill:

- Strikes a quarterly \$3.5 million transfer from the [Statutory Allocations Fund](#) to the [UST Fund](#). The change is effective beginning with the third quarter of FY 2017.
- Strikes a quarterly \$750,000 transfer from the Statutory Allocations Fund to the Department of Agriculture and Land Stewardship (DALS) [Renewable Fuel Infrastructure Fund](#) and replaces it with a \$1.5 million quarterly allocation. This change is effective for the fourth quarter of FY 2016 and the first two quarters of FY 2017. The new quarterly allocation is then struck, effective with the third quarter of FY 2017.
- Extends the existing [Environmental Protection Charge](#) (EPC) for six months, to December 31, 2016.
- Makes conforming changes.

### **Background**

Iowa's EPC is set to expire at the end of FY 2016. The EPC is equal to \$0.01 per petroleum gallon. The EPC generates revenue of approximately \$21.6 million per year. Although originally designed as a financing mechanism for the cleanup of petroleum contamination, for many years the EPC has been a revenue source for the Road Use Tax Fund (RUTF). Underground petroleum storage tank cleanup has instead been financed at first through an annual allocation of motor vehicle use tax, and later (and currently) through an annual allocation from the Statutory Allocation Fund.

While the EPC is set to expire at the end of FY 2016, under current law the annual \$14.0 million allocation to UST cleanup does not expire. In addition, the Renewable Fuel Infrastructure Fund receives an annual \$3.0 million allocation from the Statutory Allocations Fund and this allocation does not expire.

The Statutory Allocations Fund receives funding from trailer registration fees, driver's license fees, and other fees. Any revenue in the Fund that is not specifically allocated to another purpose is transferred to the RUTF. The scheduled expiration of the EPC will reduce RUTF revenue by \$21.6 million per year. This Act delays the repeal of the EPC by six months and the delay will result in additional FY 2017 RUTF revenue when compared to current law. This Act eliminates two ongoing annual allocations totaling \$17.0 million. Eliminating the two allocations will also increase RUTF revenue and off set much of the revenue decrease associated with the EPC expiration. A 2014 **Issue Review** describing the [EPC](#) is available from the Legislative Services Agency (LSA).

The UST Program, UST Fund, and UST Board were created in HF 447 (Petroleum Underground Storage Tank Act of 1989). The main purpose of the Program is to provide environmental remediation assistance, site insurance, and loan financing for underground petroleum storage tank locations. A 2014 **Issue Review** describing the [UST Program](#) is available from the LSA.

Updating the 2014 **Issue Review** analysis, the UST Program had a balance at the end of FY 2015 of \$33.7 million and outstanding cleanup obligations of \$29.3 million. During the course of FY 2016 the UST Fund will receive \$14.0 million from the Statutory Allocations Fund and will make payments for remedial claims and for administration. The projected UST Fund balance at the conclusion of FY 2016 is \$36.3 million and outstanding claim obligations are expected to total \$22.8 million.

While an increase in the expected total cleanup cost for known claims has reduced the future financial condition of the UST Program somewhat, the projected balances for FY 2016 through FY 2019 are expected to be sufficient to pay all existing and future Fund obligations without the continued revenue transfer from the Statutory Allocations Fund after December 2016.

The Renewable Fuels Infrastructure Fund is administered by the DALs and the [Renewable Fuel Infrastructure Board](#). The sources of revenue for the Fund include the annual \$3.0 million transfer from the Statutory Allocations Fund and interest. The Fund is used for the following purposes:

- Up to \$50,000 annually for administration.
- Up to 1.5% (about \$45,000 per year) for program marketing.
- Renewable fuel infrastructure incentives for petroleum retailers and terminals. The purpose of the Program is to improve motor fuel distribution sites by installing, replacing, or converting infrastructure to be used to store, blend, or dispense renewable (ethanol and biodiesel) fuel.
- Since FY 2012, the annual Agriculture and Natural Resources Appropriation Act has appropriated \$500,000 each year from the Renewable Fuel Infrastructure Fund to the DALs for motor fuel inspection.

Over four fiscal years (FY 2012 through FY 2015), the Renewable Fuel Infrastructure Fund:

- Received \$12.0 million from the Statutory Allocations Fund.
- Received \$87,000 in interest and other revenue.
- Transferred \$2.0 million to the DALs for motor fuel inspection.
- Expended \$200,000 on administration.
- Expended \$8.5 million on retail and terminal motor fuel infrastructure incentives.
- Increased the ending balance by \$1.4 million.

### **Fiscal Impact**

This Act strikes existing quarterly allocations from the Statutory Allocations Fund to the UST Fund and the Renewable Fuel Infrastructure Fund. The UST Fund and the Renewable Infrastructure Fund will cease to receive quarterly allocations after the second quarter of FY 2017. The changes in this Act will result in the following fiscal impacts:

- UST Fund, negative \$7.0 million for FY 2017, negative \$14.0 million annually thereafter.
- Renewable Fuel Infrastructure Fund, positive \$750,000 for FY 2016 and negative \$3.0 million annually, beginning FY 2018.
- RUTF, negative \$750,000 for FY 2016, positive \$17.8 million for FY 2017, positive \$17.0 million thereafter.

Current projections indicate that the UST Fund has a sufficient balance to pay all remaining Fund obligations and to provide a funding source for future petroleum cleanup identified as program-eligible under current law. The Renewable Fuel Infrastructure Fund had a balance of \$3.4 million at the end of FY 2015 and a similar cash balance at the end of February 2016.

The revenue changes for the RUTF revenue will impacted distributions through the RUTF formula that are used for city, county, and state road construction and maintenance activities. Beginning with FY 2017, the RUTF increase will offset much of an annual \$21.6 million current law revenue decrease scheduled to begin in FY 2017 as a result of the EPC sunset.

#### **Enactment Date**

This Act was approved by the General Assembly on April 27, 2016, and signed by the Governor on May 16, 2016.

#### **Effective Dates**

Division II, relating to the increase in the quarterly allocation to the Renewable Fuels Infrastructure Fund, is effective upon enactment and first impacts the fourth quarter allocation to that Program. The remaining portions of this Act are effective December 31, 2016.

#### **Sources**

Legislative Services Agency analysis  
Department of Transportation  
Department of Natural Resources  
Iowa UST Board  
State of Iowa accounting system

### **Description**

[House File 2468](#) pertains to tax credits, tax exemptions, and tax administration. This Act :

- Requires that the Department of Revenue subject job applicants, contractors, vendors, employees, and others performing work for the Department to a national criminal history check through the Federal Bureau of Investigation and requires the Department to provide fingerprints of the individuals to the Iowa Department of Public Safety. With the exception of job applicants, the requirements must be met at least once every 10 years. This Act also requires that the investigated individuals authorize the release of the results to the Department of Revenue. In addition, this Act specifies that the results of the investigation are not a public record and any cost is to be borne by the Department of Revenue.
- Creates a new Geothermal Tax Credit. The income tax credit is equal to 10.0% of qualified geothermal heat pump installation expenditures. The new credit is available for residential installations. The tax credit is not refundable or transferable but unused amounts may be carried forward for up to 10 tax years. The tax credit is first available for calendar year 2017. A taxpayer claiming the new Geothermal Tax Credit may not also claim the existing Geothermal Heat Pump Tax Credit available under Iowa Code section [422.111](#) for the same installation.
- Specifies the procedure the Department of Revenue must use in instances where applications for the [Solar Energy System Tax Credit](#) exceed the total available credit amount for a year.
- Couples the Iowa Solar Energy System Tax Credit with the federal Internal Revenue Code (IRC) for tax years beyond tax year 2015. With the enactment of [HF 2433](#) (IRC Update and Manufacturing Consumables Tax Exemption Act of 2016), Iowa's tax code is generally coupled with the federal IRC, but only through tax year 2015. The Iowa tax credit is equal to a percentage of the federal credit. The federal credit expires after calendar year 2021.
- Increases the existing Adoption Tax Credit from \$2,500 to \$5,000 per adoption.
- Modifies an existing sales tax exemption available for construction project contracts involving a designated exempt entity. Under current law, designated exempt entities generally include governmental entities and instrumentalities of state, federal, county, or municipal governments. This Act expands the definition of designated exempt entity to include the agent of an instrumentality of a county or municipal government if the instrumentality was created for the purpose of owning real property within a Reinvestment District established under Iowa Code chapter [15J](#).
- Requires the Director of the Department of Revenue to consider evidence from both the taxpayer and the Department during a property tax appeal on the assessment of certain centrally assessed property.
- Extends the Utility Replacement Task Force three years, to January 1, 2019.
- Extends by one year the date a project receiving tax credits under the [Renewable Energy Tax Credit Program](#) must begin operations, from January 1, 2017, to January 1, 2018, and correspondingly extends the final year the tax credits are available, from 2026 to 2027.

- Removes or modifies ownership restrictions for small solar projects eligible for Renewable Energy Tax Credits under Iowa Code section [476C.3\(4\)\(b\)\(3\)](#).
- Notwithstanding deadlines for Solar Energy System Tax Credits for applications where a specific set of temporal circumstances apply.

## **Background**

### **Solar Energy Tax Credit Coupling**

Iowa has coupled with the federal IRC through tax year 2015. The Iowa Solar Energy Tax Credit is a percentage of the federal solar tax credit. The federal government has made changes to their credit and extended it through at least tax year 2021. Iowa law is currently not coupled with the tax credit extension.

### **Sales Tax Exemption**

Construction contracts for buildings constructed for governmental entities and the instrumentalities of governmental entities are generally eligible for a sales tax refund under Iowa Code section [423.4\(1\)](#). To be eligible for the sales tax refund, the purchased property must become an integral part of the building and upon completion, the project must become public property. While the refund provision includes instrumentalities of governments, the refund language does not mention specifically the agents of instrumentalities.

Under current law, Iowa Code section [423.3\(80\)](#) provides a sales tax exemption for the purchase of materials by contractors for the construction of a building for a designated exempt entity. That section adopts by reference the same definition for designated exempt entity as is used in the sales tax refund provision discussed in the above paragraph. The change contained in this Act keeps the existing definition of a designated exempt entity eligible for the sales tax exemption, and adds the agent of an instrumentality of a county or municipal government, but only in certain circumstances related to a Reinvestment District.

### **Adoption Tax Credit**

This refundable tax credit is equal to a maximum of \$2,500 per adoption. The credit was first available for tax year 2014. This change increases the maximum per adoption amount to \$5,000, effective tax year 2017.

### **Small Solar Projects**

To qualify for an existing Renewable Energy Tax Credit reserved for small solar projects, a solar energy project must have a nameplate generating capacity of 1.5 megawatts or less and be owned by an electric cooperative association, municipally-owned city utility, or a rate-regulated public utility. The project must also meet the eligible renewable energy facility definitional requirements of Iowa Code section [476C.1\(6\)](#). The change in this Act removes some of the small solar project ownership restrictions associated with the definition of an eligible renewable energy facility.

Current statute allows a total of 10.0 megawatts of projects to be approved for tax credits under the small solar project portion of the Renewable Energy Tax Credit Program. The Iowa Utilities Board tax credit project application tracking system indicates that applications have been received for 9.5 megawatts of the totaled allowed 10.0 megawatts. It is assumed that one or two of these projects totaling no more than 3.0 megawatts do not meet the current ownership requirements and those projects will not be approved for tax credits in their

current form. The deadline for a project to become operational and therefore eligible to earn Renewable Energy Tax Credits going forward is January 1, 2017.

### **Geothermal Heat Pump Tax Credit**

Iowa currently has a Geothermal Heat Pump Tax Credit equal to 20.0% of an existing federal heat pump installation credit. The federal credit is equal to 30.0% of installation costs so the current Iowa credit equals 6.0% of installation costs. Combined, the state and federal tax incentives under existing law equal 36.0% of installation costs.

The federal credit is set to expire at the end of calendar year 2016. If the federal tax credit is extended to calendar year 2017 and beyond, the incentives will total 40.0% under the provisions of this Act. If the federal credit is not extended, the total tax incentive available in Iowa will fall to 10.0% under this Act, and to 0.0% without this Act.

### **Renewable Energy Tax Credit Deadline**

To qualify for Iowa's Renewable Energy Tax Credit (wind energy and renewable energy projects other than wind), the project must be placed in service by January 1, 2017. If that deadline is missed, the project is not eligible for the tax credit and tax credits will expire unused.

### **Assumptions**

- An analysis by the Department of Revenue and the Office of Attorney General has concluded that the impacted projects within Reinvestment Zones qualify for an existing sales tax refund process and that the change in this Act making those projects also eligible for a sales tax exemption does not provide any additional financial benefit to the projects. If there is no financial benefit to the project, then there is no fiscal impact to state revenue.
- The provision notwithstanding application deadlines under the Solar Energy System Tax Credit Program has a fiscal impact as it makes applicants that are not eligible for tax credits under existing law newly eligible. However, the applications will become part of the limited tax credit that is extended in Section 4 of this Act and therefore the fiscal impact of this provision is included within the fiscal impact of Section 4 of this Act.
- Iowans claimed an average of \$2.0 million in Geothermal Heat Pump Tax Credits from tax year 2012 through tax year 2014. At an effective credit rate of 6.0% of installation costs, the annual installation cost averages \$33.3 million per year. For this estimate, the federal tax incentive is assumed to expire at the end of calendar year 2016. Expiration of the federal credit will reduce the combined state and federal income tax incentive from the current level of 36.0% of installation costs to 10.0%. This incentive reduction is assumed to reduce the attractiveness of residential geothermal installations and for this estimate, installations are assumed to equal 70.0% of the annual \$33.3 million in installation costs, or \$23.3 million. Installation costs beyond calendar year 2017 are assumed to increase 2.2% each year. As a nonrefundable, nontransferable tax credit, each year's tax credits will be redeemed through tax return filing over several tax years. The assumed redemption pattern is:
  - Year 1 = 66.0%

- Year 2 = 17.0%
- Year 3 = 5.0%
- Years 4 through 6 = 4.0%
- Tax credits for calendar year 2017 installations are assumed to first impact the General Fund in FY 2018. The Department of Revenue based the fiscal estimate for the Adoption Tax Credit increase on 260 tax credit claims during tax year 2014 and 253 claims filed for tax year 2015 through the date of the analysis.

### **Fiscal Impact**

The provision coupling the Iowa Solar Energy Tax System Credit with the federal IRC for tax years beyond 2015, will extend Iowa's credit through the 2021 federal expiration date. Without this coupling provision, the Iowa credit will not be available for tax years after 2015. The fiscal impact of this change will reduce projected General Fund revenue as listed below:

- FY 2018 = \$2.5 million
- FY 2019 = \$3.5 million
- FY 2020 = \$3.8 million
- FY 2021 = \$4.0 million
- FY 2022 = \$4.1 million
- FY 2022 through FY 2032 in total = \$12.0 million

The provisions expanding a sales tax exemption for entities involved in projects within a Reinvestment District, is deemed to have no identifiable fiscal impact as the sales in question are assumed to be eligible for a sales tax refund under current law.

Provisions extending the placed-in-service deadline for project eligibility under the Renewable Energy Tax Credit Program for one year, is deemed to have no fiscal impact as all projects on the Iowa Utilities Board project list are assumed by the Department of Revenue to become operational under the existing placed-in-service January 1, 2017, deadline.

Provisions ownership requirements for tax credits available for small solar projects are assumed to have no identifiable fiscal impact as it is assumed by the Department of Revenue that even if projects on the current application list are found to be not eligible, new projects will be added to the list and will become operational by the January 1, 2017, deadline.

The placed-in-service deadline for the Renewable Energy Tax Credit is January 1, 2017. For the purposes of this fiscal estimate, the Department of Revenue assumes that all projects will become operational by the existing deadline, with or without the changes in the bill.

Redemptions of the new Geothermal Tax Credit are projected to reduce State General Fund revenue by the following amounts:

- FY 2018 = \$1.5 million
- FY 2019 = \$2.0 million
- FY 2020 = \$2.1 million

- FY 2021 = \$2.3 million
- FY 2022 = \$2.5 million
- FY 2023 and future years = \$2.6 million

As a nonrefundable tax credit, the Geothermal Tax Credit will also reduce the local option income surtax for schools by a projected \$48,500 for FY 2018, growing to \$80,600 for FY 2023 and after.

Should Congress extend the expiring federal geothermal tax credit, the combined tax credit available in Iowa will increase from the current 36.0% to 40.0% of installation costs. This is assumed to keep residential geothermal installations at the current annual level and this in turn will increase the above fiscal estimates by 42.9% (\$2.2 million General Fund impact in FY 2018, growing to \$3.7 million by FY 2023).

Increasing the maximum Adoption Tax Credit from \$2,500 per adoption to \$5,000 is projected to reduce net General Fund revenue by \$347,000 per year, beginning FY 2018.

The following table provides a summary of the provisions of this Act with an identified fiscal impact. The remaining provisions of this Act do not have significant fiscal impacts.

<b>HF 2468 Combined Fiscal Impact</b>				
State General Fund revenue reduction, in million				
	Solar Energy Tax Credit	Geothermal Tax Credit	Adoption Tax Credit	Total
FY 2018	\$2.5	\$1.5	\$0.3	\$4.3
FY 2019	3.5	2.0	0.3	5.8
FY 2020	3.8	2.1	0.3	6.2
FY 2021	4.0	2.3	0.3	6.6
FY 2022	4.1	2.5	0.3	6.9

**Enactment Date**

This Act was approved by the General Assembly on April 29, 2016, and signed by the Governor on May 27, 2016.

**Effective Dates**

This Act has various effective and applicability dates:

- Section 1 – Background Checks – is effective upon enactment.
- Section 2 – Geothermal Tax Credit – is effective January 1, 2017 for qualified expenditures made on or after that date.
- Section 3 – Solar Energy Tax Credit Process – is effective July 1, 2016.
- Section 4 – Solar Energy Tax Credit IRC – is effective retroactive to tax year 2015.

- Section 5 – Adoption Tax Credit – is effective January 1, 2017 for tax years beginning on or after that date.
- Section 6 – Designated Exempt Entity – is effective upon enactment and retroactive to January 1, 2015 for purchases made on or after the effective date of this Act.
- Section 7 – Property Tax Appeal Evidence – is effective upon enactment and its application is retroactive to May 22, 2015.
- Sections 8 & 9 – Utility Replacement Task Force – are effective upon enactment and retroactive to January 1, 2016.
- Sections 10 & 13 – Renewable Energy Tax Credit Extension – are effective upon enactment and retroactive to tax year 2016.
- Sections 11 & 12 – Renewable Energy Tax Credit Project Ownership – are effective upon enactment and retroactive to tax year 2015 for applications filed on or after June 26, 2015.
- Section 14 – Solar Energy Tax Credit Applications – is effective upon enactment.

### **Sources**

Iowa Department of Revenue

Iowa Attorney General

Iowa Utilities Board

Legislative Services Agency Analysis

---

**SF 2300 – Renewable Chemical Production Income Tax Credit Act (LSB5172SZ)**

Analyst: Jeff Robinson (Phone: 515-281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))

Fiscal Note Version – Final Action

---

**Description**

**Senate File 2300** creates a Renewable Chemical Production Tax Credit. The new credit is equal to \$0.05 per pound of qualified chemicals produced, applies to individual and corporate income tax, and is refundable. The credit is available for chemicals produced beginning January 1, 2017, and ending December 31, 2026 (10 years).

The new tax credit is limited to no more than \$10.0 million per fiscal year in total awards and the credit is placed under the Economic Development Authority's (EDA) \$170.0 million aggregate annual tax credit cap established in Iowa Code section [15.119](#). While the tax credit is available for chemicals produced during a 10-year window, the new credit remains part of the \$170.0 million annual taxcap through FY 2030. This allows for 12 or 13 years of \$10.0 million in annual tax credit awards, or a maximum of \$120.0 to \$130.0 million over the course of the program.<sup>1</sup>

Should valid tax credit applications exceed the annual \$10.0 million available, the excess applications are awarded the first tax credits the following year. After the final year of eligible production (calendar year 2026), any eligible tax credit applications that do not receive tax credits due to the annual limit will receive tax credits the next year until the backlog is eliminated or until the end of FY 2030, whichever occurs first.

The new credit cannot be awarded until July 1, 2018, and cannot be redeemed until September 1, 2018. The maximum annual amount an existing business may receive in tax credits is \$500,000 and the maximum annual amount a new business may receive is \$1.0 million. In both instances, a company may only receive the credit for five years. Eligibility for the new credit is limited to businesses that organize, expand, or locate in Iowa on or after the effective date of this Act.

This Act also reduces the annual amount of tax credits that may be awarded by the EDA under the existing [High Quality Jobs Program](#) for five fiscal years. While that Program does not currently have an annual limit, it is effectively capped at \$130.0 million per year through the application of the \$170.0 million aggregate annual tax credit cap. For five fiscal years (FY 2017 through FY 2021), this Act caps the High Quality Jobs Program at \$105.0 million per year. This Act also provides that, should the Renewable Chemical Production Tax Credit awards exceed \$27.0 million during the first four years of availability, the High Quality Jobs Program is limited to \$105.0 million for an additional year.

---

<sup>1</sup> Twelve years of potential chemical tax credit allocations will occur if the EDA first allocates tax credits to the new program beginning with FY 2019. Thirteen years will occur if the EDA allocates tax credits to the new program beginning with FY 2018. While the amount of tax credits requested for the initial year of availability will be known during FY 2018, the first credits cannot be awarded until FY 2019. It is not clear whether the EDA can allocate tax credits under the \$170.0 million cap that cannot be awarded until the next fiscal year.

## Assumptions

**Renewable Chemical Production Tax Credit Projection** – Projected tax credit redemptions are made by the Department of Revenue in consultation with Iowa State University using the following assumptions:

- Over the 10 years of credit availability, 25 existing companies will produce eligible renewable chemicals totaling 1.25 billion pounds or more, and receive a combined \$62.5 million in Renewable Chemical Production Tax Credits.
- Over the 10 years of credit availability, six new (or newly located in Iowa) companies will produce renewable chemicals totaling 0.60 billion pounds or more, and receive a combined \$30.0 million in Renewable Chemical Production Tax Credits.
- While credits are first available for production during the 2017 calendar year, credits cannot be awarded until July 1, 2018, and cannot be claimed until September 1, 2018. Therefore, there is no assumed impact resulting from credit redemptions until FY 2019.
- The credits are refundable, so all awarded credits are assumed to be redeemed. The redemption pattern is assumed to follow the redemption pattern of the existing refundable Research Activities Tax Credit.

Fiscal year of award = 0.0%

Fiscal year of award year plus 1 year = 16.37%

Fiscal year of award year plus 2 years = 74.54%

Fiscal year of award year plus 3 years = 9.09%

- The following table is based on the previous assumptions. It presents the estimated pounds of chemicals produced and eligible for tax credits, the timing for tax credits earned and awarded, and in the right hand column, the direct impact on net General Fund revenue that is the result of redemption of the new tax credits.

**Renewable Chemical Production Tax Credit**  
**Pounds of Eligible Chemicals Earning Tax Credits and Fiscal Impact of Credit Redemptions**

	Pounds of Eligible Chemicals (in Millions)	Tax Credits Earned	Tax Credits Awarded		Tax Credits Redeemed (Fiscal Impact)
CY 2017	70.0	\$ 3,500,000	\$ 3,500,000	FY 2018	\$ 0
CY 2018	120.0	6,000,000	6,000,000	FY 2019	-1,470,725
CY 2019	150.0	7,500,000	7,500,000	FY 2020	-4,197,900
CY 2020	200.0	10,000,000	10,000,000	FY 2021	-6,456,950
CY 2021	230.0	11,500,000	10,000,000	FY 2022	-8,272,863
CY 2022	300.0	15,000,000	10,000,000	FY 2023	-9,829,563
CY 2023	250.0	12,500,000	10,000,000	FY 2024	-10,000,000
CY 2024	220.0	11,000,000	10,000,000	FY 2025	-10,000,000
CY 2025	170.0	8,500,000	10,000,000	FY 2026	-10,000,000
CY 2026	140.0	7,000,000	10,000,000	FY 2027	-10,000,000
CY 2027	0.0	0	5,500,000	FY 2028	-9,815,838
CY 2028	0.0	0	0	FY 2029	-8,199,688
CY 2029	0.0	0	0	FY 2030	-3,881,513
CY 2030	0.0	0	0	FY 2031	-374,963
	1,850.0	\$ 92,500,000	\$ 92,500,000		\$ -92,500,000

**High Quality Jobs Tax Credit Reduction** – Tax credit redemption projections are made by the Department of Revenue using historical redemption patterns for the various tax credits available under the High Quality Jobs Program:

- The state tax credits available under the High Quality Jobs Program include an investment tax credit, a Supplemental Research Activities Tax Credit, and a sales/use tax refund. Most of the tax incentives under the Program are not refundable. On average, approximately 45.0% to 55.0% of tax credits awarded under the High Quality Jobs Program are actually redeemed. For this projection, the redemption of High Quality Jobs Tax Credits is projected to equal 50.0% across fiscal years.
- A tax credit award under the High Quality Jobs Program is distributed over five years and each year has a potential seven-year carry forward period. Therefore, tax credits awarded under the Program take many years to be redeemed.
- This Act reduces the available tax credits under the High Quality Jobs Program by \$25.0 million per year for five fiscal years for a total reduction in those five years of \$125.0 million. In addition, the \$170.0 million aggregate tax credit cap will require the EDA to reduce the High Quality Jobs Program by \$10.0 million in each of six fiscal years (FY 2022 through FY 2027), for a total additional reduction of \$60.0 million. The combined reduction over 10 fiscal years is \$185.0 million.

Using the assumed redemption rate of 50.0%, the \$185.0 million reduction in High Quality Jobs Tax Credit awards is projected to reduce tax credit redemptions \$92.5 million over 24 fiscal years.

Projected Reduction in High Quality Jobs (HQJ) Tax Credit Redemptions			
FY 2017	\$ 30,000	FY 2026	\$ 7,890,000
FY 2018	580,000	FY 2027	6,820,000
FY 2019	2,860,000	FY 2028	5,480,000
FY 2020	4,370,000	FY 2029	5,250,000
FY 2021	5,910,000	FY 2030	4,590,000
FY 2022	8,400,000	FY 2031	3,630,000
FY 2023	10,520,000	FY 2032	2,850,000
FY 2024	9,530,000	FY33 to FY40	5,010,000
FY 2025	8,780,000	Total	\$ 92,500,000

**Fiscal Impact — State General Fund**

The creation of a new Renewable Chemical Production Tax Credit and the reduction in tax credits available under the High Quality Jobs Program impacts 24 fiscal years, with positive revenue impacts in FY 2018 through FY 2020. Over the 24 years, the projected impact of the changes nets to zero.

However, should demand for the new tax credit exceed projections, the direct impact on the State General Fund across all impacted fiscal years will be negative. Any negative impact will occur after FY 2028.

<b>Projected Net Impact on General Fund Revenue</b>			
<b>In Millions</b>			
	Chemical Tax Credit Redemptions	HQJ Tax Credit Redemptions	Net Fiscal Impact
FY 2017	\$ 0.0	\$ 0.0	\$ 0.0
FY 2018	0.0	0.6	0.6
FY 2019	-0.6	2.9	2.3
FY 2020	-3.6	4.4	0.8
FY 2021	-6.0	5.9	-0.1
FY 2022	-7.8	8.4	0.6
FY 2023	-9.8	10.5	0.7
FY 2024	-10.0	9.5	-0.5
FY 2025	-10.0	8.8	-1.2
FY 2026	-10.0	7.9	-2.1
FY 2027	-10.0	6.8	-3.2
FY 2028	-10.0	5.5	-4.5
FY 2029	-9.3	5.4	-3.9
FY 2030	-5.0	5.0	-0.0
FY 2031	-0.5	3.9	3.4
FY 2032	0.0	3.5	3.5
FY 2033	0.0	3.5	3.5
	\$ -92.5	\$ 92.5	\$ 0.0

### **Fiscal Impact – Other Issues**

The new tax credit is a refundable tax credit and it is available for individual and corporate income taxpayers. Refundable tax credits do not impact the calculation of the local option income surtax for schools that applies to many individual income taxpayers. The investment tax credit portion of the High Quality Jobs Program is not refundable. Nonrefundable tax credits do impact the surtax calculation. The change to the new credit is expected to have a modest positive impact on local school revenue derived from the local option income surtax for schools.

Applicants for the new tax credit will be assessed EDA compliance cost administrative fees totaling \$500 per application plus 0.5% of the tax credits redeemed. The reduction in High Quality Jobs Tax Credit awards will reduce EDA fees collected under that Program. The two EDA revenue changes should offset.

The Department of Revenue states that the creation of a Renewable Chemical Production Tax Credit will require additional administrative, information technology, and tax credit tracking costs for the Department. The additional development cost is estimated to be a one-time cost of \$90,000.

**Enactment Date**

This Act was approved by the General Assembly on March 28, 2016, and signed by the Governor on April 6, 2016.

**Effective Dates**

Division II, creating the new Renewable Chemical Production Tax Credit, is effective upon enactment and the credit is available for qualified chemicals produced on or after January 1, 2017. Division I, modifying the maximum annual amount of tax credits that may be awarded under the High Quality Jobs Program, is effective July 1, 2016.

**Sources**

Iowa Department of Revenue  
Iowa State University

---

SF 2301 – College Savings Accounts by Nonprofit and Community Foundations Act (LSB5838SV.1)

Analyst: Jeff Robinson (Phone: 515-281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))

Fiscal Note Version – Final Action

---

### **Description**

Senate File 2301 adds tax-exempt, nonprofit organizations qualified under Internal Revenue Code (IRC) section 501(c)(3) to the definition of “participant” for the Iowa Educational Savings Plan Trust. The Trust is also known as the Iowa College Savings 529 Plan. This action will allow these organizations to open and fund accounts for individual beneficiaries.

### **Background**

The Iowa College Savings 529 Plan (529 Plan) is Iowa’s version of a federally approved, tax advantaged college savings and finance program. The 529 Plan is administered by the Office of the State Treasurer. At the federal tax level, contributions to the 529 Plan are not tax advantaged, but assets grow tax free and withdrawals are tax free as long as the withdrawals are used for approved higher education expenses. Iowa provides an additional tax benefit by allowing contributions to be deducted from Iowa income tax, up to an annual maximum per taxpayer and per beneficiary. The Iowa deduction limit for tax year 2016 is \$3,188 and that amount is annually adjusted for inflation.

According to IRC section 501(c)(3), to qualify an organization must meet the following definition:

“Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition....., or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual,.....”

Organizations that are approved by the Internal Revenue Service under section 501(c)(3) are generally exempt from state and federal income taxation, although it is possible that some activities of such an organization will be subject to income tax. Contributions made by taxpayers to approved section 501(c)(3) organizations are deductible from state and federal taxable income.

### **Assumptions**

The Department of Revenue identified three potential tax situations where this Act could have a fiscal impact on the State General Fund. In the first two instances, the impact is expected to be minimal.

- Distributions from the 529 Plan may be used for a wider array of college expenses than traditional college scholarships and some scholarship distributions end up as taxable income for the student receiving the scholarship. Distributions from the 529 Plan are not taxed. If nonprofit organizations that currently provide higher education scholarships switch to the 529 Plan and away from traditional scholarships, income subject to the state income tax will decrease.

- While the income of nonprofit organizations is generally exempt from income tax, some organizations do engage in activities that produce taxable income and that income is subject to tax. If a qualified nonprofit organization that does have taxed income is able to use the 529 Plan contributions as a tax deduction, then State General Fund revenue would be negatively impacted.

A third potential impact could reach some level of significance. While the contributions to the 529 Plan by the nonprofit organizations provide no significant tax benefit to the organization, since the organization itself is generally exempt from income tax, the individuals contributing to the organization receive an income tax deduction for their contribution to the organization. If this form of 529 Plan participation leads Iowa taxpayers to contribute more to tax-exempt, nonprofit organizations in order to support the organizations' college finance function, then income subject to state income tax will decline.

How effective interested nonprofit organizations will be in soliciting additional donations to support their Iowa 529 Plan efforts is not known and cannot be accurately estimated. Using charitable contribution totals claimed by resident Iowa taxpayers for tax year 2014 and using charitable giving distribution data from Giving USA Foundation, the Department of Revenue calculates that each 1.0% increase in Iowa resident charitable contributions for higher education purposes will result in an increase of \$1.6 million per year in deductible contributions and a decrease in State General Fund revenue of \$77,000.

For the sake of this estimate, a charitable contribution increase of 0.5% for tax year 2017 and 1.0% for tax year 2018 and after is assumed.

### **Fiscal Impact**

The addition of IRC section 501(c)(3) organizations to the definition of eligible participants in Iowa's 529 Plan has a potential negative fiscal impact on the State General Fund. That impact will occur if this change causes the overall contribution level of Iowa taxpayers to nonprofit organizations to increase. Such a situation could develop if Iowa taxpayers increase their charitable contributions in order to support the goals of the nonprofit 529 Plan participants made newly eligible under this Act.

For this fiscal note, it is estimated that the increase in annual Iowa resident contributions to tax-deductible higher education 529 Plans will equal no more than \$800,000 in tax year 2017 and no more than \$1.6 million in tax year 2018 and after. This will result in a General Fund revenue reduction of \$38,000 in FY 2018 and \$77,000 in FY 2019 and after.

Other potential fiscal impacts were analyzed and determined to be minimal.

### **Enactment Date**

This Act was approved by the General Assembly on April 25, 2016, and signed by the Governor on May 25, 2016.

### **Effective Date**

This Act was effective upon enactment and the tax changes apply retroactively to include tax year 2016.

### **Sources**

Iowa Department of Revenue  
Legislative Services Agency analysis

### **Description**

[Senate File 2306](#) provides an exemption from specified Iowa tax, fee, licensing, registration, and other filing requirements for out-of-state companies and workers. The exemption applies to work done during a defined disaster response period and the work performed must be related to critical infrastructure damaged, impaired, or destroyed as the result of a state disaster or emergency.

A “disaster response period” is defined as a period of time beginning 10 days prior to the date a disaster is declared by the Governor of Iowa or the President of the United States and ending 60 days after the disaster or emergency declaration ends.

“Critical infrastructure” is defined as real property, personal property, and equipment associated with the following networks and systems:

- Communications.
- Electric generation, transmission, and distribution.
- Gas distribution.
- Water pipelines.

### **Background**

Iowa Code section [29C.6](#) describes the procedure for a disaster declaration by the Governor. A disaster declaration is limited in duration to 30 days. However, the Governor may extend existing declarations for additional 30-day periods.

A [database](#) of disasters declared by the Iowa Governor is maintained by the Department of Homeland Security and Emergency Management. For calendar year 2010 through 2015 there were 125 weather-related disaster declarations issued by the Governor. Sixteen of those events were also declared disasters through Presidential declaration. The Iowa database does not contain information on the financial severity of these declared disasters.

The Federal Emergency Management Agency (FEMA) maintains a [database](#) covering Presidential disaster declarations. That database contains information on the dollar amount of public infrastructure repair costs approved for federal aid cost-share, as well as the type of project approved for federal disaster aid. While the FEMA database provides information covering the financial severity and type of property damaged for each declared disaster, it is not a perfect dataset for this fiscal estimate. For use in determining the fiscal implications of this Act, the federal database has the following limitations:

- The dataset does not contain information on damage to critical infrastructure owned and maintained by private companies.
- The dataset does not contain information on critical infrastructure owned by public entities where the repair or replacement expense was covered by insurance.

- The dataset contains information that is not related to critical infrastructure.
- The financial information is not limited to the time frame contemplated by this Act (60 days after the end of the Governor's disaster declaration).

### **Assumptions**

- The fiscal estimate is based on the available data for 16 FEMA Presidential major disasters declared for Iowa from 2010 through 2015. The FEMA database contains totals for the federal public assistance grants awarded in response to each declared disaster. Only the costs associated with projects categorized as emergency projects and damage to public utilities are used in the estimate. Across the 16 projects, a total of \$227.1 million in repair projects was approved by FEMA for emergency repair and for public utility repair.
- Adjusted for inflation, the \$227.1 million equals \$240.9 million and the average cost for emergency and public utility repair cost is \$15.1 million for President-declared disasters.
- In addition to the federal disasters, from 2010 through 2015 there were a total of 109 weather-related disasters declared by the Iowa Governor that were not also President-declared disasters. Disasters declared by the Iowa Governor are assumed to be less severe in nature. To adjust for severity, an average cost per emergency equal to 10.0% of the Presidential emergencies is used (\$1.5 million).
- Using this average, the assumed damage for the 109 Governor-declared disasters totaled \$164.1 million.
- For all 125 weather-related disasters, the emergency and public utility costs totaled \$405.0 million and averaged \$67.5 million over six years.
- This Act exempts out-of-state companies and workers from specific license, fee, and tax payments. For this fiscal estimate, only the business profits and individual income tax impacts are considered.
- Of the annual \$67.5 million in repair payments, 10.0% is assumed to be business profits and 40.0% is assumed to be paid in employee wages. The average tax rate on business profits is assumed to be 6.0% and the average income tax rate on employee wages is assumed to be 4.5%. Combined, these assumptions yield annual projected General Fund tax revenue of \$1.6 million per year.
- As discussed above in the background section, the FEMA database has limitations for this analysis. To adjust for the combined impact of the following unknowns, the amount of General Fund revenue associated with out-of-state companies and workers is assumed to equal 20.0% of the \$1.6 million in General Fund revenue (\$324,000).
  - The FEMA database does not include the cost of public utility repairs covered by insurance. Business profits and employee wages of out-of-state repair companies paid through insurance will also be exempt from Iowa tax under the provisions of this Act.
  - The FEMA database does not include the cost to repair critical infrastructure owned and maintained by private companies (i.e., utility companies). Business profits and employee wages of out-of-state repair companies will also be exempt from tax under the provisions of this Act.
  - Not all of the costs included as emergency work is repair to critical infrastructure as defined in the Act. Repairs to non-critical infrastructure are not covered by this Act. Approximately 36.1% of the cost used in the estimate is defined as emergency work.
  - The public infrastructure costs used in the estimate likely extend past a period of time equal to 60 days after the end of the declared disaster, so some portion of the 63.9% in public utility repair costs represents longer-term repair work and is not covered by this Act.
  - It is not known what percentage of repair work is performed by out-of-state companies and workers and what percentage is performed by in-state companies and workers.

In-state companies and workers repairing critical infrastructure are not provided the income tax exemption under this Act and will remain subject to business and individual income tax.

- Neither the number nor severity of weather-related disasters in future years is predictable. Using the assumptions above, the previous six years generates the following fiscal impacts based only on that year's declared disasters:
  - 2010 – \$967,000
  - 2011 – \$456,000
  - 2012 – \$14,000
  - 2013 – \$205,000
  - 2014 – \$236,000
  - 2015 – \$66,000
- This Act is effective on enactment and applies to disasters declared after that date. Assuming an enactment date of May 1, 2016, 58.3% of calendar year 2016 will remain.
- Calendar year impacts are assumed to be fiscal year impacts through the filing of tax returns in the spring following the end of the calendar year.

### **Fiscal Impact**

This Act exempts out-of-state companies and workers with insufficient other tax nexus from state-imposed fees, licenses, and taxes for work performed during a specified time period associated with an emergency declaration by the Governor or the President. The work performed must be related to defined critical infrastructure. Based on the above stated assumptions, the projected impact on General Fund revenue of the tax exemption is a revenue reduction of \$189,000 in FY 2017 and \$324,000 in FY 2018 and future fiscal years.

### **Enactment Date**

This Act was approved by the General Assembly on April 12, 2016, and signed by the Governor on April 21, 2016.

### **Effective Dates**

This Act was effective upon enactment. The income tax provisions apply retroactively to the beginning of tax year 2016.

### **Sources**

Department of Revenue  
Federal Emergency Management Agency (FEMA) data  
Department of Homeland Security and Emergency Management data  
Legislative Services Agency analysis

---

**SF 2309** –Biofuel Tax Incentives Act (LSB5598SZ)

Analyst: Jeff Robinson (Phone:(515-281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)))

Fiscal Note Version – Final Action

---

**Description**

**Senate File 2309** relates to biofuel (ethanol and biodiesel) tax incentives. This Act:

- Extends the production payment currently available for biodiesel manufacturers located in Iowa. The payment is equal to \$0.02 per gallon produced, up to a total of 25.0 million annual gallons for each manufacturing facility. The payment, set to expire January 1, 2018, is extended seven years to January 1, 2025.
- Extends the E-15 Plus Gasoline Promotion Tax Credit expiration date seven years from the current January 1, 2018, date to January 1, 2025.
- Extends the E-85 Gasoline Promotion Tax Credit expiration date seven years from the current January 1, 2018, date to January 1, 2025.
- Extends the Biodiesel Blended Fuel Tax Credit expiration date seven years from the current January 1, 2018, date to January 1, 2025.
- Increases the Biodiesel Blended Fuel Tax Credit for biodiesel blends of B-11 or greater (currently \$0.045 per blended gallon) to \$0.055 per blended gallon. This change is effective January 1, 2018.
- Decreases the Biodiesel Blended Fuel Tax Credit for biodiesel blends classified as B-5 or higher but not as high as B-11 (currently \$0.045 per blended gallon) to \$0.035 per blended gallon. This change is effective January 1, 2018.

**Background**

The E-15, E-85, and Biodiesel Blended Fuel Tax credits are funded through the individual and corporate income tax process. The tax credits are refundable. As refundable credits, they do not impact the calculation of the local option income surtax for schools. The biodiesel production payment is funded through a sales tax refund process that is also refundable.

For road use purposes, Iowa taxes diesel fuel that contains 10.0% biodiesel (B-10) or less at \$0.325 per gallon. Iowa taxes diesel fuel with biodiesel content greater than 10.0% at a rate \$0.03 per gallon lower, or \$0.295 per gallon. Iowa taxes gasoline that does not contain at least 9.0% ethanol (E-9) at \$0.308 per gallon. Iowa taxes gasoline that does contain ethanol at a rate \$0.015 per gallon lower, or \$0.293 per gallon. Revenue raised by the state tax on gasoline and diesel fuel is deposited in the Road Use Tax Fund.

**Assumptions**

All gasoline and diesel fuel gallon projections were provided by the Department of Revenue and are based on:

- Historical tax credit usage and redemption patterns
- The 2015 Iowa Retailers' Fuel Gallons Annual Report
- Fuel demand forecasts from the U.S. Energy Information Administration

For the projection, extension of the two ethanol tax credits is not assumed to impact the percentage of gallons sold in Iowa that are blended with ethanol. Therefore, the ethanol tax credit extensions are not projected to have an impact on the Road Use Tax Fund.

Increasing the tax credit available for biodiesel blends in excess of B-10 is projected to increase the number of diesel gallons sold at the \$0.295 diesel tax rate and decrease the number of gallons sold at the \$0.325 diesel tax rate. The Department of Revenue projects that the higher tax credit incentives available for diesel blends in excess of B-10 will result in an annual average of 55.7 million diesel gallons shifting from B-10 or lower gallons to gallons that are blends higher than B-10. Of those 55.7 million average annual gallons, 42.9 million (77.0%) are expected to be gallons subject to the state diesel fuel tax. At a tax rate differential of \$0.03 per gallon, the shift to blends higher than B-10 will decrease Road Use Tax Fund fuel tax revenue by \$1.3 million per calendar year through the end of calendar year 2024.

### **Fiscal Impact**

This Act has four separate General Fund fiscal impacts. All four impacts are projected to reduce net General Fund revenue through the redemption of refundable tax credits.

- Extension of the biodiesel production payment
- Extension of the E-15 Plus Gasoline Tax Credit
- Extension of the E-85 Gasoline Promotion Tax Credit
- Extension and tax credit rate changes for the Biodiesel Blended Fuel Tax Credit

The projected reduction in net General Fund revenue for each provision, as well as the summed total, is presented in the following table.

### Projected Reduction in General Fund Revenue

In millions. Due to rounding, rows and columns may not add to totals.

	Biodiesel Production Payment	E-15	E-85	Biodiesel Blended Fuel Tax Credit	Total Impact
FY 2016	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
FY 2017	0.0	0.0	0.0	0.0	0.0
FY 2018	0.9	0.0	0.0	0.0	0.9
FY 2019	4.0	0.1	0.6	3.2	7.9
FY 2020	4.1	0.6	2.7	16.5	23.8
FY 2021	4.1	0.7	3.1	17.1	25.0
FY 2022	4.2	0.8	3.4	17.3	25.6
FY 2023	4.2	0.8	3.7	17.6	26.4
FY 2024	4.3	0.9	4.0	17.9	27.1
FY 2025	3.2	1.0	4.3	18.1	26.5
FY 2026	0.0	0.8	3.6	14.8	19.6
FY 2027	0.0	0.1	0.3	0.5	0.9
Total	<u>\$ 29.0</u>	<u>\$ 5.9</u>	<u>\$ 25.7</u>	<u>\$ 122.9</u>	<u>\$ 183.8</u>

This Act also impacts the Road Use Tax Fund. The increased incentive available for biodiesel blended fuel in excess of B-10 is projected to reduce diesel fuel sales subject to the \$0.325 per gallon tax rate and increase sales subject to the \$0.295 tax rate. This projected shift will result in lower revenue from the tax on diesel fuel. The projected impact is a reduction in Road Use Tax Fund revenue of \$1.3 million per calendar year. By fiscal year, the projected reduction equals:

- FY 2018 – \$413,000
- FY 2019 through FY 2024 – \$1.3 million per year
- FY 2025 – \$885,000

**Enactment Date**

This Act was approved by the General Assembly on April 29, 2016, and signed by the Governor on May 24, 2016.

**Effective Date**

Division V, relating to the status of the remaining ethanol fuel tax credits after the repeal of Ethanol Promotion Tax Credit on January 1, 2021, is effective January 1, 2021. The remainder of this Act is effective July 1, 2016.

**Sources**

Iowa Department of Revenue  
2014 Iowa Retailers' Fuel Gallons Annual Report  
U.S. Energy Information Administration

---

**SF 2312** – Sales Tax Rebates, Baseball and Softball Tournament Facilities Act (LSB 6009SZ)

Analyst: Kent Ohms (Phone: 515-725-2200) ([kenneth.ohms@legis.iowa.gov](mailto:kenneth.ohms@legis.iowa.gov))

Fiscal Note Version – Final Action

---

**Description**

**Senate File 2312** modifies the rebate of state sales tax to the owner or operator of a baseball and softball tournament facility and movie site. Any facility seeking the rebate must make an application to the Iowa Economic Development Authority (IEDA) Board through the Community Attraction and Tourism (CAT) Program, and the Act specifies the evaluation provision of the projects. The Act changes the qualifying entity to any baseball and softball complex with construction costs of at least \$10.0 million completed after July 1, 2016. The requirement that the legal owner or operator be a for-profit entity is modified. A cap of \$2.5 million or 10 years of rebates is applied to individual complexes, whichever comes first.

Under the Act, a complex remains eligible until one of the following conditions is met:

- More than 10 years have passed from the project completion date, or the award date, whichever is later.
- A complex reaches the \$2.5 million individual rebate cap.
- The aggregate \$5.0 million cap is reached on the Program.
- There is a change in control in the ownership of a complex making it ineligible.

With a \$5.0 million Program cap, and a \$2.5 million individual rebate cap, there could be as many as two projects financed under this Program if they meet the \$10.0 million investment requirement. The Program sunset in 2024 is repealed, but the Program will continue until \$5.0 million in funds have been rebated.

**Background**

In 2012 Iowa Acts, chapter **1098** (Sales Tax Rebate – Baseball and Softball Tournament Facility and Movie Site), a sales tax rebate was enacted that applies to the owner or operator of a baseball and softball tournament facility and movie site. The provision provides a rebate of sales tax between January 1, 2014, and January 1, 2024, from the sales tax imposed and collected by retailers at the All-Star Ballpark Heaven facility in Dyersville, Iowa. The aggregate amount is not to exceed \$16.5 million. The provision is repealed June 30, 2024 (or 30 days after the \$16.5 million cap is achieved).

**Assumptions**

- No entity qualified for the rebate established currently in Iowa Code section **423.4(10)**.
- Two facilities in the planning stages will likely qualify for the rebate: one in Dyersville and one in Cedar Rapids. Neither facility is anticipated to be in operation until the summer of 2017.
- Based on figures from the Strategic Economics Group and other similar complexes in other areas of the country, sales at the two facilities are estimated to range between \$3.0 million and \$6.0 million annually in sales.

- Based on the individual cap and overall rebate cap, additional entities could qualify at a later date, but are not factored into the estimate at this time.
- The IEDA will be able to evaluate applications within existing staffing capacity.

**Fiscal Impact**

The total maximum fiscal impact will be a sales tax rebate amount of \$5.0 million, with individual project caps of \$2.5 million or 10 years. The actual timing and specific rebate amounts by fiscal year are currently unknown. Based on the assumptions noted above, the following table provides an estimate of the annual diversion and rebate of State General Fund revenues that will be deposited into the rebate fund.

The sales tax rebate will only impact the General Fund. State sales/use tax for school infrastructure (Secure an Advanced Vision for Education – SAVE) funds are not rebated and Local Option Sales Tax revenue is not rebated.

In addition to the sales tax rebate amounts, the Department of Revenue will incur \$25,000 in administrative costs in FY 2017 and future fiscal years until the expiration of this provision.

**Enactment Date**

This Act was approved by the General Assembly on April 25, 2016, and signed by the Governor May 27, 2016.

**Effective Date**

The Act takes effect July 1, 2016.

**Sources**

Iowa Department of Revenue  
 Iowa Economic Development Authority  
 All-Star Ballpark Heaven (Dyersville, IA)  
 Prospect Meadows (Cedar Rapids, IA)  
 Strategic Economics Group  
 LSA Analysis and Calculations

	<u>Dyersville</u>	<u>Cedar Rapids</u>	<u>Total Impact</u>	<u>Cumulative Impact</u>
FY 2017	\$ 0	\$ 0	\$ 0	\$ 0
FY 2018	-292,000	-75,000	-367,000	-367,000
FY 2019	-305,000	-157,000	-462,000	-829,000
FY 2020	-316,000	-163,000	-479,000	-1,308,000
FY 2021	-328,000	-169,000	-497,000	-1,805,000
FY 2022	-340,000	-175,000	-515,000	-2,320,000
FY 2023	-352,000	-181,000	-533,000	-2,853,000
FY 2024	-365,000	-188,000	-553,000	-3,406,000
FY 2025	-202,000	-195,000	-397,000	-3,803,000
FY 2026	0	-202,000	-202,000	-4,005,000
FY 2027	0	-210,000	-210,000	-4,215,000
FY 2028	0	-109,000	-109,000	-4,324,000
<b>Total Rebate</b>	<u>\$-2,500,000</u>	<u>\$-1,824,000</u>		