

## Tax Increment Financing – Sales Tax

In Iowa, tax increment financing (TIF) is an economic development tool that provides public financing for specific projects within a designated area in local government jurisdictions. In general, TIF areas have been funded with local property taxes; however, TIF legislation for local governments to use other tax revenue sources has been enacted in recent years.

The General Assembly has approved legislation that allows approved projects to receive a specified sales tax revenue amount (or specified state hotel/motel tax revenue amount) in a designated project area. In general, of the 6.0% state sales tax rate, 5/6th of the state sales tax rate is deposited in the State General Fund and 1/6th is deposited in the Secure an Advanced Vision for Education (SAVE) Fund. The state hotel/motel tax rate is 5.0% and all funds generated from the tax are deposited in the State General Fund. In addition to the state sales tax, a local option sales tax (LOST) may also be imposed at a rate up to 1.0% of taxable sales, pending voter approval. The Sales Tax TIF provisions that have been enacted vary and the amount of specified tax revenue designated for the projects and the mechanism for funding the provisions vary as well. The following provides a brief description of each of the Sales Tax TIF types.

**Newton Race Track Sales Tax Rebate ([Iowa Code section 423.4\(5\)](#)):** Enacted in 2005 with approval of [HF 840](#) (2005 Iowa Acts, chapter 110), the provision provides a rebate for sales tax between January 1, 2006, and January 1, 2016, from the sales tax imposed and collected by retailers at the racetrack facility. The aggregate amount is not to exceed \$12.5 million. The provision will be repealed June 30, 2016 (or 30 days after the \$12.5 million cap is achieved). Through June 30, 2013, the Department of Revenue has indicated that a total of \$3.1 million has been rebated to the Newton Race Track.

**Flood Mitigation Projects ([Iowa Code chapter 418](#)):** Enacted in 2012 with approval of SF 2217 (2012 Iowa Acts, [chapter 1094](#)), establishes a Flood Mitigation Program that will provide for authorized funding for approved projects. Included in the funding provisions is the Sales Tax Increment Fund that will receive deposits of increased sales tax revenues from impacted and approved flood mitigation project areas. The maximum time limit for an approved project to be funded from the Sales Tax Increment Fund is 25 years with the initial date not prior to January 1, 2014. The total amount of remittances received by an individual flood mitigation project cannot exceed \$15.0 million in a fiscal year and the aggregate amount is capped at \$30.0 million per fiscal year.

**All-Star Baseball Haven Sales Tax Rebate ([Iowa Code section 423.4\(10\)](#)):** Enacted in 2012 with approval of [SF 2329](#) (2012 Iowa Acts, chapter 1098), 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 Baseball Haven facility. The aggregate amount is not to exceed \$16.5 million. The provision will be repealed June 30, 2024 (or 30 days after the \$16.5 million cap is achieved).

**Reinvestment Zones ([Iowa Code chapter 15J](#)):** Enacted in 2013 with approval of [HF 641](#) (Reinvestment Zones Act), the provision permits projects meeting specific requirements and that receive approval from the Iowa Economic Development Authority (IEDA) Board to receive new state sales tax and new hotel/motel tax revenues generated from new businesses within the Zone area designated for approved projects with the Zone area. The new state sales tax revenue is defined as 4.0% of taxable sales from new establishments and the new hotel/motel tax revenue is defined as the amount of hotel/motel tax revenue from new hotels or motels within the Zone. Although the law does not specifically reference incremental tax increases to be designated for the projects, it does designate specific tax revenue generated within a specified area to be used for approved local projects. The provision requires the Reinvestment Zone districts to be dissolved after 20 years and the aggregate amount of new state sales tax and hotel/motel tax designated for all Reinvestment Zone projects be capped at \$100.0 million. As of November 15, 2013, no Reinvestment Zone areas have been approved.

### More Information

[Iowa Department of Revenue](#)  
[Legislative Services Agency: State Taxation – Sales and Use Taxes](#)

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**Local Option Sales Tax TIFs ([Iowa Code section 423B.10](#)):** Enacted in 2008 with approval of [HF 2700](#) (2008 Iowa Acts, chapter 1191), the provision provides that, upon approval of the county board of supervisors, an eligible city may designate that the incremental increase in local option sales tax revenues generated within an urban renewal area (above a base year amount) may be used for projects within that designated area. The Department of Revenue has reported that two cities have established a local option sales tax (LOST) TIF (Spencer and Red Oak). Both cities have a base year of FY 2012. In FY 2013, Red Oak generated \$4,809 in LOST TIF while Spencer did not generate any funding for urban renewal area projects within those cities.

**Table 1** provides a summary of the Sales Tax TIF provisions (and Reinvestment Zones), including cap restrictions (if any), the amount of funding currently received by the projects (through June, 2013), and the repeal date. The Newton Race Track has received a total of \$3.1 million in sales tax revenue for projects and may fall short of the cap amount by the repeal date. The LOST TIF has totaled \$4,809 (noted in the previous paragraph). The other provisions will begin to receive sales tax revenue for projects in future fiscal years.

**Table 1 – Summary of Sales Tax TIF Provisions**

Provision	Cap Amount	Total Amount Through June 2013	Repeal Date
Newton Race Track	\$12.5 million total	\$3,064,481	6/30/2016 <sup>1</sup>
All-Star Baseball Haven	\$16.5 million total	None	6/30/2024 <sup>1</sup>
Flood Mitigation Projects	\$15.0 million per project annually/\$30.0 million annual total for all projects	None	See footnote <sup>2</sup>
Reinvestment Zones	\$100.0 million total	None	See footnote <sup>3</sup>
Local Option Sales Tax - Urban Renewal Projects	None	\$4,809	None

<sup>1</sup> Repeal date may be earlier if cap amount is reached before the specified repeal date.  
<sup>2</sup> Although no repeal date is specified, project applications must be submitted by January 1, 2016, and each project expiration date is 20 years after board approval.  
<sup>3</sup> Although no repeal date is specified, no Reinvestment Zone districts can be approved after July 1, 2018, and districts are required to be dissolved after 20 years.