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## FISCAL TOPICS

Fiscal Services Division

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## Tax Credit: High Quality Jobs Program

The High Quality Jobs Program (HQJ) provides qualifying businesses tax credits and direct financial assistance to encourage those businesses to locate, expand, or modernize a facility in Iowa. The amount of tax incentives awarded is dependent on the qualifying investment made. Actual award amounts will be based on the business's level of need, the quality of the jobs, the percentage of created jobs defined as high-quality, and the economic impact of the project. Businesses must meet additional program requirements and the new and retained jobs must have a wage which is at least equal to the applicable laborshed wage and provide sufficient benefits to be eligible for the tax credits. Companies awarded tax incentives under this program agree to job creation, job retention, wage, and investment goals and are subject to six-month reviews toward meeting those goals.

Tax incentives available under the HQJ program include:

- Investment Tax Credit (ITC) equal to a maximum of 1.0% to 10.0% of the new qualifying investment directly related to jobs created or retained by the business's project. The maximum credit percentage depends on the amount of pledged investment and jobs. One-fifth of the award can be claimed in each of the five years of the project. The ITC can be claimed against individual income, corporate, insurance premium, franchise, and moneys and credits tax.
- Supplemental Research Activities Tax Credit (SRAC) eligible to a business increasing research and development activities in the State and eligible to claim the Research Activities Tax Credit. The award is based on the estimated amount of research that the business will conduct during the five years covered by the contract. Claims to the expenditures in any tax year are a function of incremental qualifying research expenditures in that year and the business's gross revenues. The SRAC can be claimed against individual income and corporate income tax.
- Sales and Use Tax refunds may be awarded for taxes paid on gas, electricity, water, sewer utility services, goods, wares, merchandise, or on certain services related to the investment in construction or equipping of the facility covered under the HQJ contract. For distribution center projects, a refund of sales and use taxes paid on racks, shelving, and conveyor equipment can also be awarded, but claims for those refunds are limited to \$500,000 per fiscal year.
- Corporation Income Tax Credit for Third Party Sales Tax awarded for sales taxes paid by certain third-party developers on gas, electricity, water, sewer utility services, goods, wares, merchandise, or certain services related to the construction or equipping of the business's facility when the participating business is not building the facility but instead will lease the new facility. The business is awarded an income tax credit that equals the taxes paid by the lessor and can be claimed against corporate income, insurance premium, franchise, and moneys and credits tax.
- Value-added Property Tax Exemption provided by the participating local community by exempting all, or a portion, of the actual value added by improvements to real property from property taxation

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### More Information

Department of Revenue Contingent Liabilities Report: [tax.iowa.gov/reports?term\\_node\\_tid\\_depth=79](http://tax.iowa.gov/reports?term_node_tid_depth=79)

Department of Revenue Tax Credit Review:

[tax.iowa.gov/sites/default/files/idr/HQJ%20Evaluation%20Study%202016.pdf](http://tax.iowa.gov/sites/default/files/idr/HQJ%20Evaluation%20Study%202016.pdf)

Department of Revenue Tax Credit Users' Manual: [tax.iowa.gov/sites/default/files/2020-11/TaxCreditsUsersManual2020.pdf](http://tax.iowa.gov/sites/default/files/2020-11/TaxCreditsUsersManual2020.pdf)

Legislative Services Agency Individual Income Tax Guide:

[www.legis.iowa.gov/docs/publications/LG/711304.pdf](http://www.legis.iowa.gov/docs/publications/LG/711304.pdf)

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directly related to the new jobs created by the project. The exemption cannot exceed 20 years from the year the improvements are first assessed for taxation.

### Tax Credit Background

- Enabling Legislation: 2005 Iowa Acts, chapter [150](#) (Development and Oversight of State and Local Economic, Cultural, Research, and Transportation-Related Resources Act)
- Iowa Code Citations:
  - Section [15.119](#) — Awards Limitation
  - Sections [15.326](#), [15.327](#), [15.328](#), [15.329](#), [15.330](#), [15.331](#), [15.332](#), [15.333](#), [15.334](#), [15.335](#), [15.336](#) — Program Description
  - Section [422.10](#)(5) — Individual Income Tax
  - Section [422.11F](#)(2) — Individual Income Tax
  - Section [422.33](#)(5) — Corporate Income Tax
  - Section [422.33](#)(12)(b) — Corporate Income Tax
  - Section [422.33](#)(19) — Corporate Income Tax
  - Sections [422.60](#)(5)(b) and [422.60](#)(8) — Franchise Tax
  - Section [432.12C](#)(2) — Insurance Premium Tax
  - Sections [533.329](#)(2)(d) and [533.329](#)(2)(e) — Moneys and Credits Tax
- Administrative State Agencies: Iowa Economic Development Authority (IEDA) and Iowa Department of Revenue
- Sunset Date: None
- Transferable: No
- Refundable:
  - Local Property Tax Exemption is nonrefundable.
  - Sales Tax Refund is refundable.
  - Corporation Tax Credit for Third Party Sales Tax, including racks, shelving, and conveyor equipment, is refundable.
  - Investment Tax Credit is nonrefundable.
  - Supplemental Research Activities Tax Credit is refundable.
- Carryforward: Corporation Tax Credit for Third Party Sales Tax and Investment Tax Credit may be carried forward for up to seven years.
- Tax Review Committee Review Year: 2021

### Legislative History

The HQJ Program went into effect on July 1, 2005. Effective July 1, 2009, a \$185.0 million cumulative tax credit cap was established for certain tax credits awarded by IEDA, including these credits, and the name of the program was changed from High Quality Job Creation Program to the HQJ Program to allow for retained jobs to be included as qualifying toward job requirements. Effective April 15, 2010, the provision allowing up to \$4.0 million in refundable investment tax credit awards per fiscal year for projects involving value-added agricultural products or biotechnology-related processes was repealed. The cumulative tax credit was reduced to \$120.0 million, effective July 1, 2010.

The IEDA tax credit award cap was increased to \$170.0 million effective July 1, 2012, and IEDA was given the option to issue tax credits in excess of \$170.0 million, but not to exceed an additional \$34.0 million, which would be counted against the total amount of tax credits that can be authorized for a subsequent fiscal year. In addition, any tax credits authorized and awarded by IEDA during a fiscal year that are irrevocably declined by the awarded business on or before June 30 of the next fiscal year may be reallocated, authorized, and awarded during a fiscal year in which the decline occurs. During the 2014 Legislative Session, the Enterprise Zone Program was eliminated.

During the 2016 Legislative Session, the cap for HQJ was lowered to \$105.0 million for fiscal years 2017 through 2021 to offset the fiscal impact of the Renewable Chemical Production Tax Credit. During the 2021 Legislative Session, the tax credit cap was lowered to \$70.0 million for FY 2022 and after.

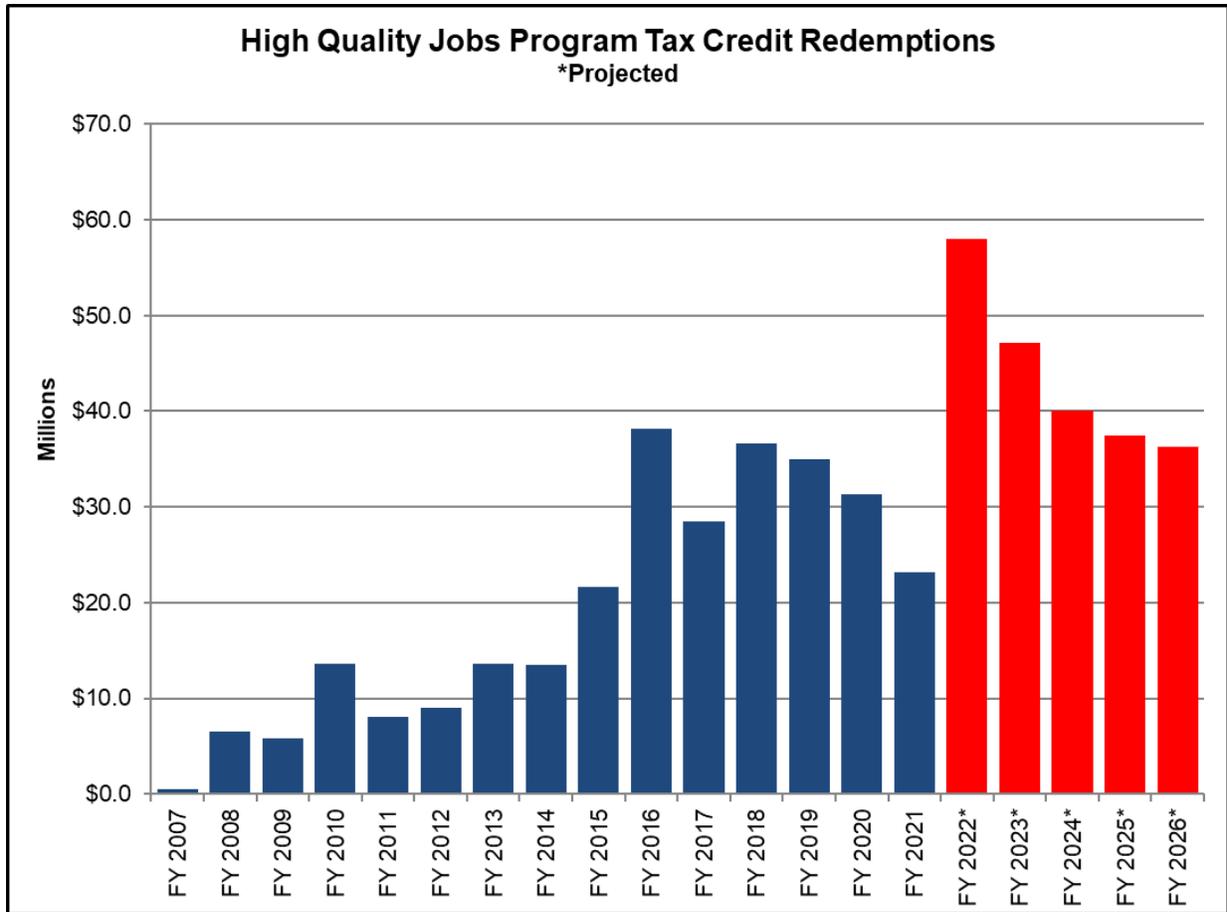
### Tax Credit Review, Usage, and Future Liability

The following is based on a Department of Revenue review of the High Quality Jobs Program released in December 2016:

- For tax incentives claimed between tax years 2005 and 2014, 49.9% were for Investment Tax Credits, 25.3% were for sales and use tax refunds, and 24.8% were for Supplemental Research Activities Tax Credits.
- For total incentives claimed between tax years 2005 and 2014, 59.6% were against corporation income tax, 25.3% were against sales and use tax, and 14.3% were against individual income tax.
- Claims associated with businesses in the manufacturing industry accounted for more than 70.0% of all High Quality Job Program claims.

The IDR reports on the annual credit usage for the High Quality Jobs Program Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 9 of the report, the following table and graph provide credit redemption history and projections for the program on a fiscal year basis. The blue bars of the graph indicate the actual credit redemptions, while the red bars are the IDR projections of future redemptions.

<b>High Quality Jobs Program Tax Credit History</b>			
* Projected			
<u>Fiscal Year</u>	<u>Tax Credit Redemptions</u>	<u>Fiscal Year</u>	<u>Tax Credit Redemptions</u>
FY 2007	\$ 528,861	FY 2017	\$ 28,496,522
FY 2008	6,559,050	FY 2018	36,688,404
FY 2009	5,887,527	FY 2019	34,933,553
FY 2010	13,565,264	FY 2020	31,282,169
FY 2011	8,133,327	FY 2021	23,137,731
FY 2012	9,071,571	FY 2022*	57,997,549
FY 2013	13,597,872	FY 2023*	47,128,025
FY 2014	13,543,712	FY 2024*	40,061,868
FY 2015	21,666,523	FY 2025*	37,468,089
FY 2016	38,111,696	FY 2026*	36,236,231



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