EIGHTY-FIFTH GENERAL ASSEMBLY
2014 REGULAR SESSION
DAILY

HOUSE CLIP SHEET

MARCH 7, 2014

HOUSE FILE 2439

H-8094

Amend House File 2439 as follows:

1. By striking page 3, line 28, through page 4, line 1, and inserting:

c. Neither the state board nor>

By SALMON of Black Hawk
ALONS of Sioux
SHEETS of Appanoose
JORGENSEN of Woodbury
HEARTSILL of Marion
SCHULTZ of Crawford
LANDON of Polk
GASSMAN of Winnebago
WATTS of Dallas

H-8094 FILED MARCH 6, 2014

LSA LEGISLATIVE SERVICES AGENCY
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Fiscal Note

Fiscal Services Division

HF 2353 – Home Buyer Savings Account, Tax Exemption (LSB 5761HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

House File 2353 creates a new State income tax exemption for qualified deposits to a First-time Homebuyer Savings Account. While there is no limit to the amount a taxpayer may contribute to an account, deposited amounts qualifying for the income tax exemption are limited to $3,000 per year for an individual account, or $6,000 per year for a married couple with a joint account. Interest earned on account balances is also exempt from State income tax.

A qualifying account must pay interest and must be established with a State or federally chartered bank, savings and loan association, credit union, or trust company in Iowa. The account must have an administrator. An account holder may also serve as the account administrator. To be eligible to establish an account, a taxpayer must never have been the owner of a single-family, owner-occupied residence.

The assets of an account are to be used for the down payment and allowable closing costs associated with the purchase of a home. Withdrawals from the account are tax-free as long as the money is used for a down payment and closing costs for a single-family, owner-occupied home in Iowa. If the account holder withdraws the money from the account for any other reason, they must include that money as taxable income on their Iowa tax return in the year of withdrawal. If the account holder withdraws the money on the last business day of the year, there is no penalty. If they do not make the nonqualifying withdrawal on the last business day of the calendar year, they are subject to a 10.0% withdrawal penalty. This Bill is effective January 1, 2015, and applies to tax year 2015 and after.

HF 2353 imposes a serious misdemeanor penalty for knowingly preparing or causing to be prepared a false claim, statement, or billing to justify the withdrawal of money from a First-time Homebuyer Savings Account. This may already be charged as some other criminal conduct under current law.

Background

Correctional Impact

Expanded definitions and enhanced penalties generally increase criminal justice system costs. Refer to the Legislative Services Agency (LSA) memo addressed to the General Assembly, **Correctional Impact Memo**, dated January 30, 2014, for information related to criminal justice system costs. The State General Fund cost of a serious misdemeanor conviction ranges from $210 to $4,500. The minimum cost includes court time of a District Associate Judge or a District Court Judge, court reporter, court attendant, and Clerk of Court staff. The maximum cost includes court time plus costs for indigent defense, State prison, and parole.

Minority Data Information

Refer to the memo to the General Assembly, **Minority Impact Memo**, dated January 30, 2014, for information related to minorities in the criminal justice system.

Assumptions

- An estimated 25,000 single-family, owner-occupied homes are sold in Iowa each year.
- An estimated 40.0% of single-family, owner-occupied homes are sold to first-time homebuyers (10,000 homes).
- The annual number of accounts established to purchase first-time homes will fall into these general categories.
    - 5,000 one-year accounts (the year of purchase) with an average deposit of $5,000 per account.
    - 2,000 two-year accounts with an average annual deposit of $4,500.
    - 700 three-year accounts with an average annual deposit of $3,500.
    - 225 four-year accounts with an average annual deposit of $3,500.
    - 75 ten-year accounts with an average annual deposit of $5,250. For projection purposes, these accounts are assumed to be established, not to purchase a home, but to defer State taxes on the deposit and interest until the end of the 10-year period.
    - 2,000 first-time home purchases will be made without an account.
    - The interest rate on accounts will be average 3.4% over the next ten years.
    - The average marginal income tax rate for benefited taxpayers will be 6.5%.
    - Due to the work and publicity needed to get the process fully operational, the fiscal impact in the first three years is assumed to be limited to a percentage of the projected full impact:
        - FY 2015 = 25.0%
        - FY 2016 = 50.0%
        - FY 2017 = 75.0%
        - FY 2018 and after = 100.0%
    - The average statewide rate for the local option income surtax for schools is 3.5%.

Summary of Impacts

Fiscal Impact

The tax credit created in this Bill is projected to reduce net General Fund revenue by the following amounts.

First-time Homebuyer Tax Credit
In Millions

	General Fund Revenue Reduction	
FY 2015	$	-0.1
FY 2016		-0.5
FY 2017		-1.7
FY 2018		-2.7
FY 2019		-3.8
FY 2020		-3.8

For fiscal years beyond FY 2020, the fiscal impact continues at a similar level. The new tax credit will reduce State tax liability and it will also reduce the revenue raised by the local option income surtax for schools, for school jurisdictions with the surtax in place. This Bill is projected to reduce the Statewide surtax yield by $100,000 annually.

Correctional Impact

This Bill provides a serious misdemeanor penalty for any person that knowingly prepares or causes to be prepared a false claim, statement, or billing to justify the withdrawal of money from a first-time homebuyer savings account. A serious misdemeanor is punishable by confinement for no more than one year and a fine of at least $315 but not more than $1,875.

The correctional impact cannot be estimated but is expected to be minimal.

Minority Impact

The minority impact cannot be estimated but is assumed to be minimal.

Sources

Federal First-time Homebuyer claims, 2008 and 2009
Iowa Association of Realtors
Iowa Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

March 6, 2014

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

LEGISLATIVE SERVICES AGENCY
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Fiscal Note

Fiscal Services Division

HF 2305 – Enterprise Zone Transition (LSB 5320HV)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

House File 2305 repeals the existing Economic Development Authority Enterprise Zone (EZ) and the related Housing Enterprise Zone (HEZ) Programs. The purpose of the EZ Program is transferred to the existing High Quality Jobs (HQJ) Program and the purpose of the HEZ Program is transferred to a new Workforce Housing Tax Incentive Program (WHTIP). As part of the transition, several changes to investment tax credits and tax refunds are made.

The changes are generally effective July 1, 2014, when the existing EZ and HEZ Programs will be transitioned to the HQJ Program and the WHTIP.

A provision that makes existing HEZ tax credits that were not transferrable when originally issued into transferable tax credits is effective on enactment and applies to qualified nonrefundable HEZ investment tax credits issued prior to July 1, 2014. Holders of the impacted credits are required to notify the Authority of their intent to transfer tax credits.

Background

Only a portion of tax credits awarded by the Authority is eventually redeemed. The Department of Revenue tracks tax credit awards and tax credit redemptions and has determined a redemption pattern (the percentage of a year's worth of awards that is redeemed each year after the awards are made) for each Authority tax credit program. Tax credit redemption patterns vary significantly from program to program and the percentage of awards that are eventually redeemed also varies greatly.

Tax credits may be awarded but never redeemed for several reasons, including:

- Projects that are never started or never completed.
- Projects that fail to meet the requirements of the award.
- Lack of sufficient income tax liability for the holder of nonrefundable and nontransferable tax credits.

The EZ, HEZ, and HQJ Programs as well as the new housing incentive program are part of the Authority's $170.0 million annual aggregate tax credit cap as established in **Iowa Code section 15.119**. Since this Bill does not change the annual tax credit cap, this Bill does not alter the annual dollar value of tax credits available to the Authority for award. However, provisions of this Bill will change both the timing of credit redemption and the percentage of awarded credits that are ultimately redeemed.

This Bill also changes the transferability status of outstanding HEZ tax credits. Transferable tax credits are redeemed at a much quicker rate, and at a much higher ratio than nontransferable tax credits.

Assumptions

The following table provides current law and proposed law assumptions concerning the redemptions of tax credits awarded under the Authority programs impacted by this Bill. The "# of Years" columns show the number of years a tax credit awarded in one year is assumed to impact. The "% Redeemed" columns show the percent of credits awarded in that one year that is ultimately redeemed on tax returns.

For example, $1.0 million in HEZ Investment Tax Credits awarded in 2010 is assumed to be redeemed in varying percentages over the time frame of 2010 through 2018, and by the end of 2018, 50.1% ($501,000) of the original credits is assumed to impact the State General Fund. The remaining $499,000 is assumed to have no fiscal impact.

Years in Tax Credit Award Schedule and
Percent of Awarded Tax Credits that are Actually Redeemed Over Those Years

	Current Law		Proposed Law	
	# of Years	% Redeemed	# of Years	% Redeemed
HEZ Investment Tax Credit	9	50.1%	N/A	N/A
HEZ Sales/Use Tax Refunds	9	75.0%	N/A	N/A
WHTIP Investment Tax Credit	N/A	N/A	6	94.0%
WHTIP Sales/Use Tax Refund	N/A	N/A	9	75.0%
EZ Investment Tax Credit	13	37.8%	N/A	N/A
EZ Sales/Use Tax Refunds	5	29.8%	N/A	N/A
HQJ Investment Tax Credit	13	35.1%	13	35.1%
HQJ Sales/Use Tax Refunds	6	35.0%	6	35.0%

For the new WHITC a greater percentage of tax credits awarded is assumed to be redeemed than under the existing HEZ program due to the addition of complete transferability of tax credits under the new housing program.

For the EZ components transferred to the HQJ Program, the redemption patterns are assumed to be very similar to current law with 30.0% to 35.0% of awarded tax credits eventually redeemed.

Section 24 of this Bill, making existing HEZ tax credits that were not transferrable when originally issued into transferable tax credits will have a fiscal impact, as transferable tax credits are redeemed at a much higher rate than nontransferable tax credits.

Fiscal Impact

While the provisions of this Bill do not increase the assumed dollar value of tax credits awarded by the Authority, this Bill does alter the redemption pattern for awarded credits. The following table provides the projected net General Fund revenue reduction associated with this Bill's tax credit redemption changes. The impacts include program revisions that lead to quicker redemptions of awarded tax credits as well as changes that increase the percentage of awards that are eventually redeemed.

General Fund Revenue Impact
In millions

		Revenue
FY 2014	$	-0.5
FY 2015		-2.3
FY 2016		-2.3
FY 2017		-3.8
FY 2018		-0.9
FY 2019		-1.0
FY 2020		-3.7
FY 2021		-5.0
FY 2022		-6.3

Sources
Economic Development Authority
Department of Revenue

/s/ Holly M. Lyons
March 6, 2014
