

# New Jobs Tax Credit

Tax Expenditure Committee – November 18, 2015

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# Outline

- ▶ Review the Iowa New Jobs Tax Credit
- ▶ Claims data
- ▶ Estimation of jobs created
- ▶ Incentive or bonus?

# New Jobs Tax Credit Background

- ▶ Additional job creation incentive for participants in the 260E Iowa Industrial New Jobs Training Program
  - Iowa's first income tax credit directly related to job creation
- ▶ Enacted in 1985 during the weak economic period in Iowa triggered by the farm crisis
- ▶ Job creation tax credits subsequently enacted and awarded by Economic Development Authority
  - New Jobs and Income Program (1994–2005)
  - Enterprise Zone Program (1997–2014)
  - High Quality Jobs Program (2005–current)

# New Jobs Tax Credit Eligibility

- ▶ Active 260E contract with one of the 15 community colleges
- ▶ Business location with the 260E contract
  - Adds any jobs if zero base employment
  - At least 10% job creation if positive base employment
- ▶ Can only be claimed one time for each created job once job creation requirement is met
- ▶ Eligible jobs include those created as a result of the training and those directly related to those jobs

# New Jobs Tax Credit Claims

- ▶ No award required
- ▶ Claimed against corporation income tax or individual income tax
- ▶ Business organized as S corporation or limited liability company passes claims to shareholders
- ▶ Nonrefundable with 10-year carryforward period and nontransferable

# New Jobs Tax Credit Calculation

- ▶ New Jobs Tax Credit per new job equals 6% of taxable wages up to qualifying taxable wage
  - Qualifying taxable wages = taxable wages on which an employer is required to pay unemployment taxes
  - Set by Iowa Workforce Development, indexed annually
  - \$17,300 in 2000 rising to \$27,300 in 2015
  - Maximum credit per job was \$1,038 per job in 2000 rising to \$1,638 in 2015

# Number of New Jobs Tax Credit Claims by Tax Type and Tax Year, 2006–2013

Tax Year	Claims Against Individual Income Tax		Claims Against Corporation Income Tax		Total Number of Claims
	Number of Claims	Share of Number of Claims	Number of Claims	Share of Number of Claims	
2006	1,235	92.9%	94	7.1%	1,329
2007	1,322	94.2%	82	5.8%	1,404
2008	1,652	95.0%	87	5.0%	1,739
2009	1,658	95.6%	77	4.4%	1,735
2010	1,224	95.0%	64	5.0%	1,288
2011	1,106	95.2%	56	4.8%	1,162
2012	869	94.0%	55	6.0%	924
2013	671	92.0%	58	8.0%	729
Total	9,737	94.4%	573	5.6%	10,310

Source: Iowa Department of Revenue, IA 148 Tax Credits Schedule

# Amount of New Jobs Tax Credit Claims by Tax Type and Tax Year, 2006–2013

Tax Year	Claims Against Individual Income Tax		Claims Against Corporation Income Tax		Total Claim Amount
	Claim Amount	Share of Claim Amount	Claim Amount	Share of Claim Amount	
2006	\$1,207,220	34.2%	\$2,242,123	65.8%	\$3,449,343
2007	\$1,741,396	44.7%	\$2,319,412	55.3%	\$4,060,808
2008	\$1,826,915	54.7%	\$1,501,495	45.3%	\$3,328,410
2009	\$1,517,761	65.5%	\$797,631	34.5%	\$2,315,392
2010	\$879,527	31.1%	\$2,245,041	68.9%	\$3,124,568
2011	\$1,202,339	47.2%	\$1,318,915	52.8%	\$2,521,254
2012	\$1,414,060	62.7%	\$811,139	37.3%	\$2,225,199
2013	\$745,232	44.4%	\$956,324	55.6%	\$1,701,556
Total	\$10,534,450	47.0%	\$12,192,080	53.0%	\$22,726,530

Source: Iowa Department of Revenue, IA 148 Tax Credits Schedule

# New Jobs Tax Credit Statistics by Tax Year, 2006–2013

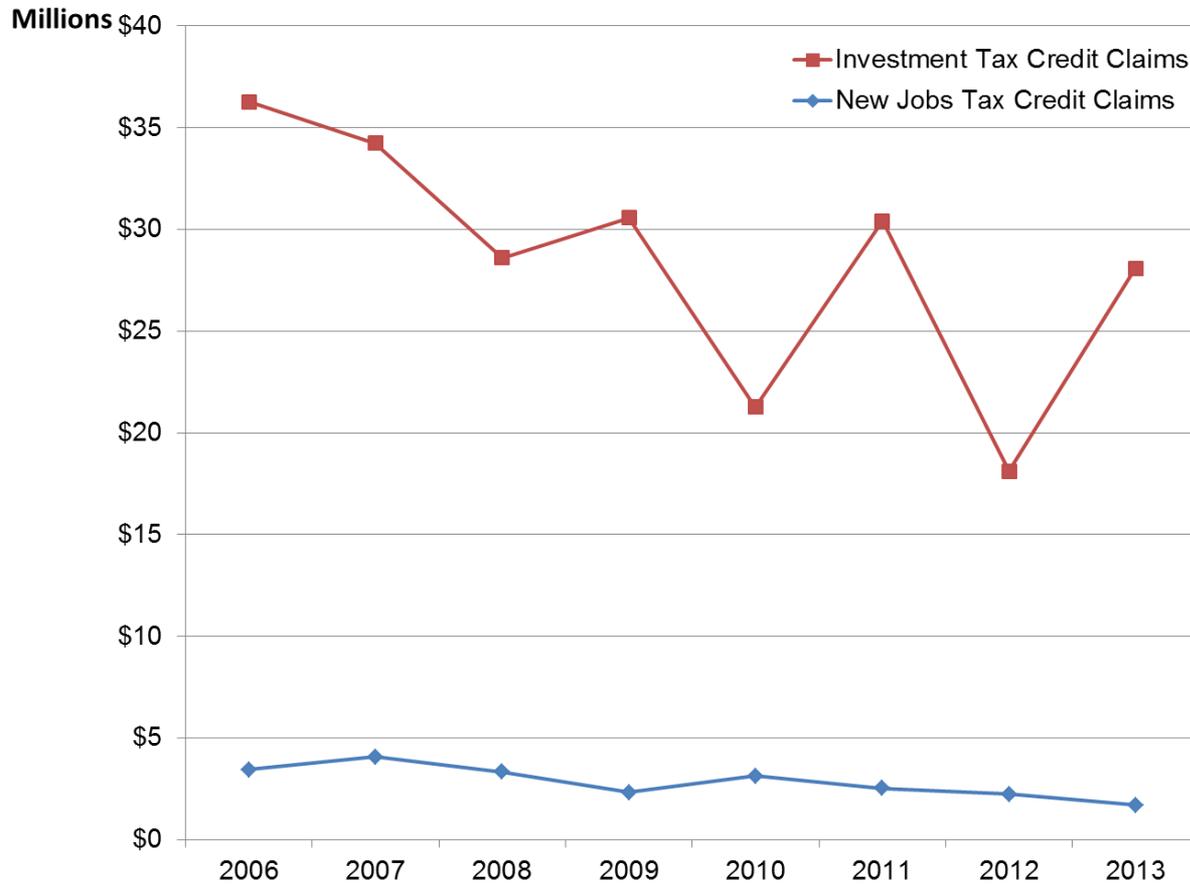
Tax Year	Amount Carried Forward from Previous Tax Year	Amount of Initial Earned Tax Credits for Current Tax Year	Amount of Tax Credits Applied in Current Tax Year	Amount of Expired Tax Credits	Amount Carried Forward to Next Tax Year
2006	\$12,448,804	\$3,007,356	\$3,449,343	\$176	\$12,006,641
2007	\$11,387,030	\$3,278,425	\$4,060,808	\$24,588	\$10,580,106
2008	\$10,819,672	\$3,242,787	\$3,328,410	\$93,573	\$10,787,629
2009	\$9,845,065	\$1,951,064	\$2,315,392	\$1,238,417	\$8,242,373
2010	\$8,082,327	\$3,026,172	\$3,124,589	\$132,725	\$7,851,427
2011	\$7,557,439	\$2,771,900	\$2,521,254	\$25,090	\$7,784,484
2012	\$7,279,809	\$2,748,103	\$2,225,216	\$10,314	\$7,795,323
2013	\$6,454,818	\$1,556,655	\$1,701,518	\$1,367,460	\$4,959,227
Total		\$21,582,462	\$22,726,530	\$2,892,343	

Source: Iowa Department of Revenue, IA 148 Tax Credits Schedule

# Tax Credits for Job Creation

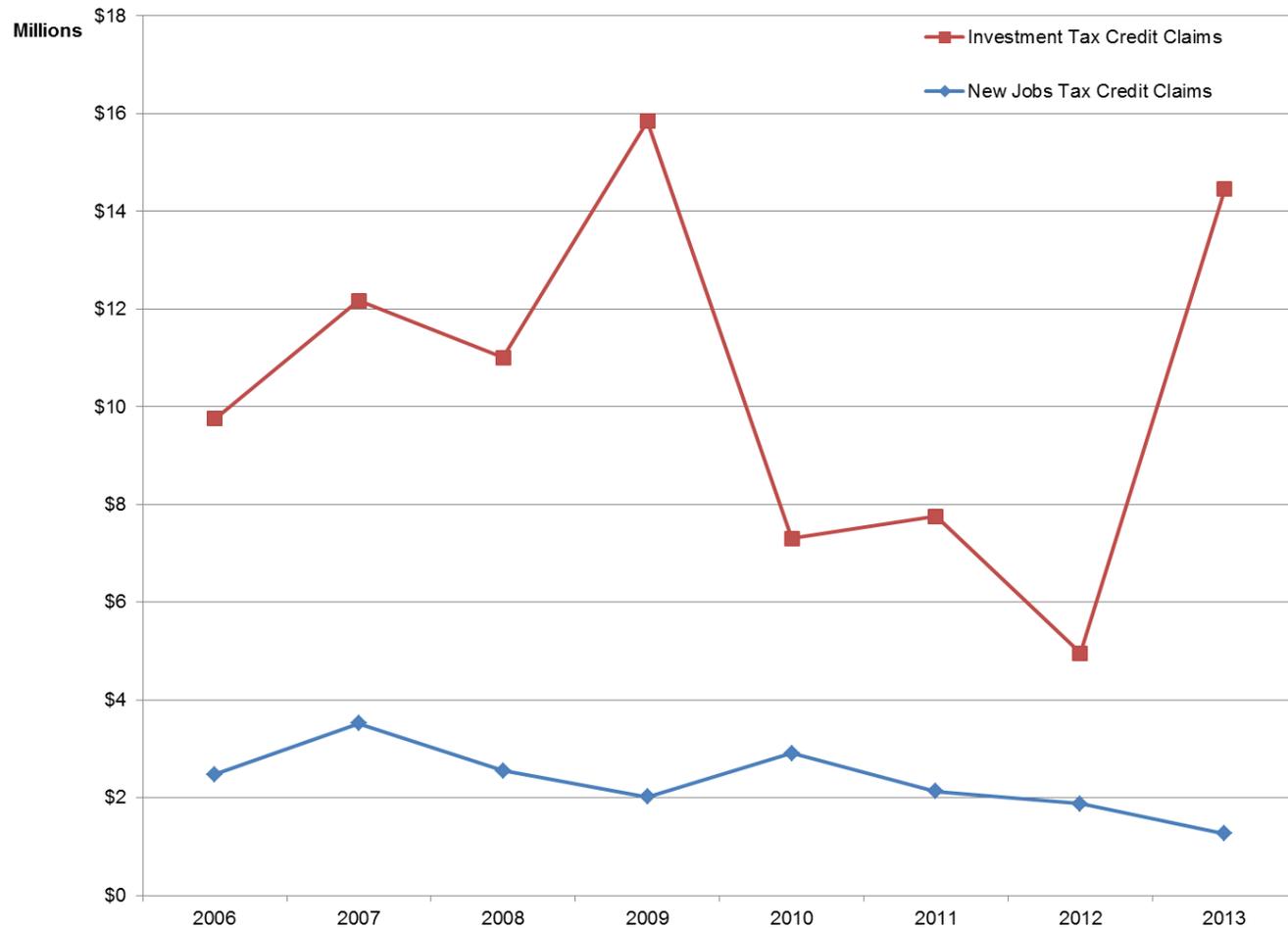
- ▶ Average around \$2.8 million in New Jobs Tax Credits claims per tax year since 2006
  - Claims attributed to 199 companies
- ▶ Other tax credit programs to encourage job creation include awards of Investment Tax Credits
  - Promoted and awarded by Economic Development Authority to increase investment and jobs in Iowa
  - Generally nonrefundable with seven year carryforward
    - Short period where select credits were refundable
  - Awards between 2006 and 2013 to 320 companies

# New Jobs Tax Credit Claims vs Investment Tax Credit Claims



Source: Iowa Department of Revenue,  
IA 148 Tax Credits Schedule

# Tax Credit Comparison for 260E Businesses



Source: Iowa Department of Revenue,  
IA 148 Tax Credits Schedule

# 260E Contract Database Match

- ▶ Economic Development Authority, with assistance of community colleges, maintains a database of 260E contracts
- ▶ Includes all contracts that were active in 2012 or later
- ▶ Includes business name, location, industry, contract dates, pledged jobs, and created jobs
- ▶ 18% of New Jobs Tax Credit claims could not be matched with 260E awards

# Reasons for Unmatched New Jobs Tax Credit Claims

- ▶ Prior to tax year 2014, 260E certificate numbers were not required with New Jobs Tax Credit claims
- ▶ Businesses with claims prior to tax year 2012 may have had 260E contracts expire prior to 2012
- ▶ Businesses with 260E awards may have merged or been acquired after making a claim so the entity does not appear in the award database
- ▶ Shareholders failed to report the pass-through entity earning the credit, so not possible to identify the business with the 260E contract
- ▶ Taxpayers incorrectly claimed the tax credit

# Usage of New Jobs Tax Credits Associated with Community Colleges, 2006–2013

Community College	Distribution of 260E Contracts with New Jobs Tax Credit Claims	Share of 260E Contracts with New Jobs Tax Credit Claims to Total		Average Aggregated Claim Per Contract	Distribution of Claims
		Number	Total Claims		
Des Moines Area Community College	20.8%	29.5%	\$3,326,660	\$37,378	17.8%
Eastern Iowa Community College	10.5%	24.3%	\$2,081,635	\$46,259	11.1%
Hawkeye Community College	8.9%	25.2%	\$1,411,663	\$37,149	7.5%
Iowa Central Community College	3.7%	48.5%	\$1,144,450	\$71,528	6.1%
Iowa Valley Community College	1.9%	30.8%	\$517,325	\$64,666	2.8%
Iowa Western Community College	1.4%	19.4%	\$208,676	\$34,779	1.1%
Kirkwood Community College	26.0%	51.4%	\$4,001,794	\$36,052	21.4%
North Iowa Area Community College	2.6%	16.9%	\$207,711	\$18,883	1.1%
Northeast Iowa Community College	10.3%	25.7%	\$2,668,006	\$60,637	14.2%
Northwest Iowa Community College	5.6%	55.8%	\$782,960	\$32,623	4.2%
Western Iowa Tech Community College	4.2%	30.0%	\$1,061,784	\$58,988	5.7%
Other Community Colleges	4.0%	12.0%	\$1,322,835	\$77,814	7.1%
<b>Total</b>	<b>100.0%</b>	<b>30.0%</b>	<b>\$18,735,499</b>	<b>\$43,877</b>	<b>100.0%</b>

Source: Iowa Department of Revenue, IA 148 Tax Credits Schedule, Economic Development Authority 260E Database

# Business Usage of New Jobs Tax Credits by Industry, 2006–2013

Industry	Total Number of Businesses with 260E Contracts	Number of Businesses with New Jobs Tax Credit Claims	Distribution of Businesses with New Jobs Tax Credit Claims	Share of Businesses with New Jobs Tax Credit Claims to Total Number	Distribution of Claims
Manufacturing	494	123	61.8%	24.9%	61.1%
Professional, Scientific, and Technical Services	84	23	11.6%	27.4%	3.2%
Information	33	8	4.0%	24.2%	5.4%
Finance and Insurance	47	6	3.0%	12.8%	3.1%
Construction	40	9	4.5%	22.5%	1.7%
Other Industries	205	30	15.1%	14.6%	25.4%
<b>Total</b>	<b>903</b>	<b>199</b>	<b>100.0%</b>	<b>22.0%</b>	<b>100.0%</b>

Source: Iowa Department of Revenue, IA 148 Tax Credits Schedule, Economic Development Authority 260E Database

# Three Estimates of Jobs Created behind New Jobs Tax Credit Claims

- ▶ Using a subset of companies matched to 260E contracts and Iowa Workforce Development unemployment insurance payment data
  - Estimated number of jobs created based on per-job tax credit cap and initial earned tax credits
  - Estimated number of jobs created based on self-reported jobs created by businesses
  - Estimated number of jobs created based on unemployment insurance payment records from IWD

# Estimated Number of Jobs Created Based on Initial Earned New Jobs Tax Credits, 2006–2013

Tax Year	Total Initial Earned Tax Credit Amount	IWD Taxable Wage Base	Tax Credit Cap Per Job	Estimated Number of Created Jobs
2006	\$2,119,343	\$21,300	\$1,278	1,658
2007	\$2,384,096	\$22,000	\$1,320	1,806
2008	\$2,662,225	\$22,800	\$1,368	1,946
2009	\$1,557,405	\$23,700	\$1,422	1,095
2010	\$2,408,474	\$24,500	\$1,470	1,638
2011	\$2,504,701	\$24,700	\$1,482	1,690
2012	\$2,564,997	\$25,300	\$1,518	1,690
2013	\$1,194,671	\$26,000	\$1,560	766
Total	\$17,395,912			12,290

Source: IDR IA 148 Tax Credits Schedule, EDA 260E Database, and IWD Unemployment Insurance Parameters

# Self-Reported Number of Jobs Created by Business with 260E Contracts and New Jobs Tax Credit Claims, 2013

<b>Number of Base Employment</b>	<b>Number of 260E Contracts by 2013</b>	<b>Self-Reported Created Jobs by Businesses as of 2013</b>
0	33	2,792
1 to 50	75	2,084
51 to 200	117	4,619
201 and Above	41	4,764
Sum	266	14,258

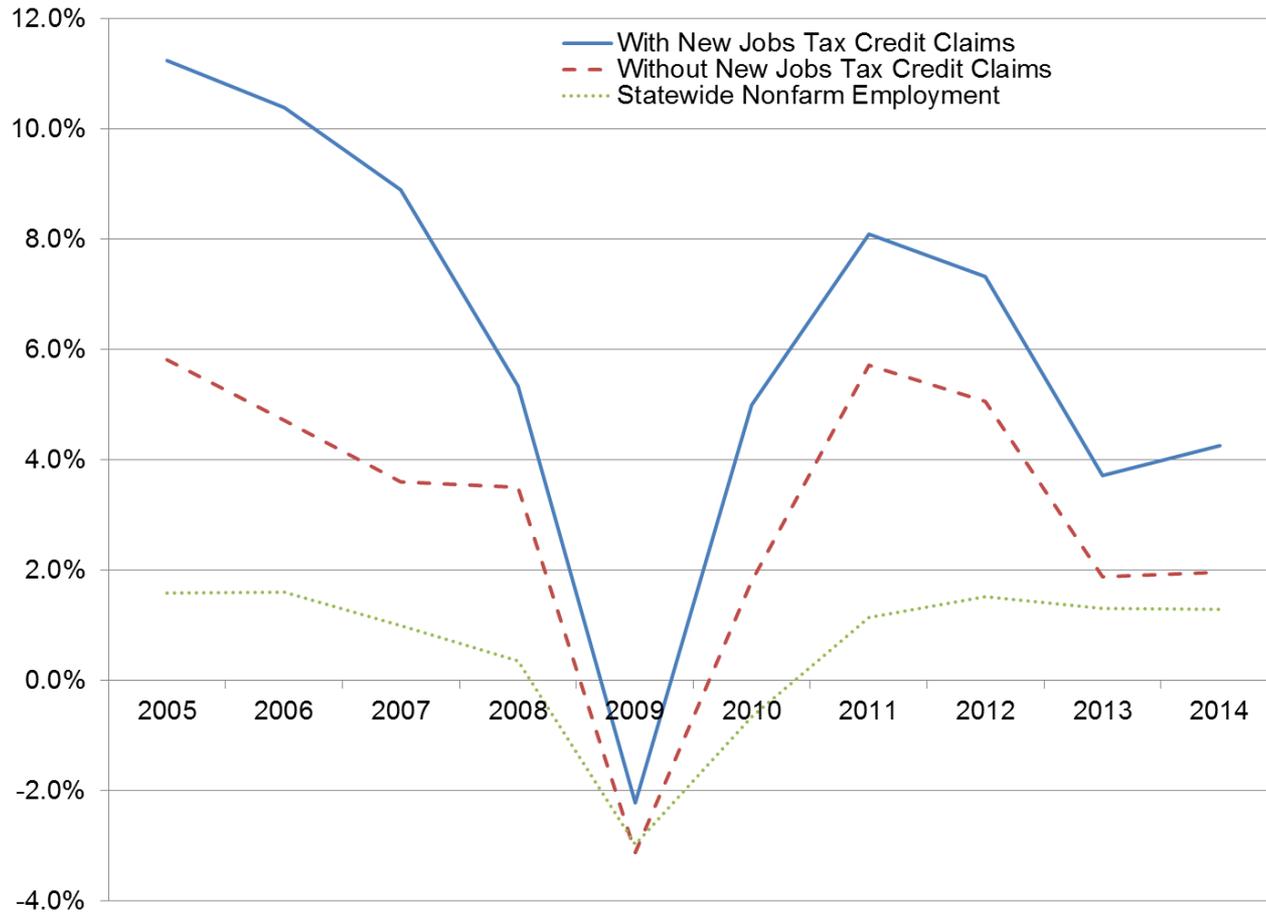
Source: IDR IA 148 Tax Credits Schedule, EDA 260E Database

# Number of Jobs Recorded in IWD Unemployment Insurance Database, 2006– 2013

<b>Number of Base Employment</b>	<b>Number of Contracts</b>	<b>Total Number of Jobs Reported in IWD Database</b>	<b>Number of Jobs Increased in IWD Database</b>
0	33	2,522	2,522
1 to 50	75	6,586	4,876
51 to 200	117	14,894	1,693
201 and Above	41	28,131	8,928
Sum	266	52,132	18,018

Source: IDR IA 148 Tax Credits Schedule, EDA 260E Database, and IWD Unemployment Insurance Payment Database

# Job Growth Rates of 260E Participants with and without New Jobs Tax Credit Claims



Source: Iowa Department of Revenue, Iowa Workforce Development, and Bureau of Labor Statistics

# Incentive or Bonus?

<b>Number of Base Employment</b>	<b>Number of 260E Contracts Eligible for New Jobs Tax Credit by 2013</b>	<b>Number of 260E Contracts with New Jobs Tax Credit Claims by 2013</b>	<b>Share of Eligible 260E Contracts with Claims</b>
0	194	42	21.6%
1 to 50	307	94	30.6%
51 to 200	268	120	44.8%
201 and Above	143	45	31.5%
Sum	912	301	33.0%

Source: IDR IA 148 Tax Credits Schedule, EDA 260E Database

- ▶ Only one-third of contracts with 10% reported job creation as of 2013 could be associated with a New Jobs Tax Credit claim in tax years 2006–2013

Questions?