



FINAL REPORT

Legislative Tax Expenditure Committee

December 3, 2020

MEMBERS

Senator Jake Chapman, Co-chairperson

Representative Lee Hein, Co-chairperson

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I. Committee Proceedings

The Legislative Tax Expenditure Committee concluded one meeting at the Statehouse during the 2019 Interim on Thursday, December 12, 2019.

II. Tax Expenditure Review

The committee received presentations and conducted a review of the following:

A. Investments in Qualifying Business Tax Credit

Mr. Tony Girardi, Public Service Manager 2, Research and Policy Division, Iowa Department of Revenue (IDR), presented a report on tax credits for investments in qualifying business, colloquially referred to as the “angel investor” tax credits. The angel investor tax credit is equal to 25 percent of an investor’s equity investment in a qualifying business. The credits are limited to a total aggregate amount of \$2 million per fiscal year. The maximum amount of the tax credit that may be issued per calendar year to a natural person and the person’s spouse or dependent shall not exceed \$100,000 combined. The maximum amount of tax credits that may be issued per calendar year for investments in any one qualifying business shall not exceed \$500,000. In order to be a qualifying business, a business must meet all of the following criteria: the business must be located in Iowa, be in operation for six years or less, participate in the entrepreneurial assistance program, and shall not have a net worth exceeding \$10 million. A total of \$9.9 million of angel investor tax credits were awarded between the years 2011 and 2018.

B. Wind Energy Production and Renewable Energy Tax Credits

Mr. John Good, Fiscal and Policy Analyst, Research and Policy Division, IDR, provided background information and statistical analysis of the wind energy production and renewable energy tax credits. The wind energy production tax credit is available for 10 years to wind generation energy production facilities and is equal to \$0.01 per kilowatt-hour of electricity sold or generated for on-site consumption. The renewable energy tax credit is available for 10 years to wind, biogas, biomass, methane, solar, refuse



conversion, and cogeneration facilities and is equal to \$0.015 per kilowatt-hour of electricity, \$4.50 per million British thermal units of heat for commercial purpose or of methane gas or other gas used to generate electricity, or \$1.44 per 1,000 standard cubic feet of hydrogen fuel. The wind energy production tax credit applies to facilities placed in service by July 1, 2012, and the renewable energy tax credit applies to facilities placed in service by July 1, 2018. A total of 363 megawatts of the renewable energy tax credit are reserved for wind energy projects and 63 megawatts are reserved for other renewable energy projects. Additionally, 10 megawatts of the maximum amount of energy production capacity equivalent of all other facilities found eligible for the renewable energy tax credit is reserved for solar energy conversion facilities. During FY 2018, \$1.5 million of wind energy production tax credits were awarded with an average award of \$376,000. During FY 2018, \$4.5 million of renewable energy tax credits were awarded with an average award of \$62,000. Mr. Good stated that 40.7 percent of the recipients of the wind energy production tax credit were nonresidents and 19.9 percent of the renewable energy tax credit recipients were nonresidents.

C. Biofuel Retailers' Tax Credit

Ms. Mandy Jia, Senior Fiscal and Policy Analyst, Research and Policy Division, IDR, presented a report on the ethanol promotion tax credit, E-85 gasoline promotion tax credit, E-15 plus gasoline promotion tax credit, and the biodiesel blended fuel tax credit. The report also included information on similar tax credits offered in other states. The ethanol promotion tax credit amount ranges from \$0.04 to \$0.08 per gallon of pure ethanol sold through December 31, 2020, depending on how close a retailer's biofuel distribution percentage is to the credit's biofuel threshold percentage. For both percentages, Ms. Jia explained the formulas and provided data. A retailer that varies from the threshold percentage by four percentage points or more is not eligible for the ethanol promotion tax credit. There were approximately 266 ethanol promotion tax credit claims in FY 2017 totaling \$700,000 in the aggregate. The E-85 gasoline promotion tax credit is equal to \$0.16 per gallon of E-85 (ethanol blends of E-70 to E-85).



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The E-85 gasoline promotion tax credit claims are increasing. There were approximately 304 E-85 promotion tax credit claims made during FY 2017 totaling \$2.5 million. The E-15 plus gasoline promotion tax credit is equal to \$0.03 per gallon of E-15 gasoline sold between September 16 through May 30, and \$0.10 per gallon on E-15 gasoline sold between June 1 through September 15, to account for special blending requirements of the federal Environmental Protection Agency. Beginning July 1, 2019, the federal Environmental Protection Agency lifted restrictions on E-15 gasoline sales during the summer. There were approximately 160 E-15 plus gasoline promotion tax credits claims during FY 2017 totaling \$2.0 million. Ms. Jia also provided data on the number of stations reporting E-85 and E-15 sales by county, and the number of registered flex fuel vehicles compared to end-of-year target goals. The biodiesel blended fuel tax credit is equal to \$0.35 per gallon of fuel rated from B5 to B10 (5-10 percent ethanol), and \$0.55 per gallon of fuel rated B11 or higher sold through December 31, 2024. There were approximately 457 biofuel blended tax credits claims made during FY 2017 totaling \$19.2 million.

D. Historic Preservation Tax Credit

Mr. Zhong Jin, Senior Fiscal and Policy Analyst, Research and Policy Division, IDR, stated that the tax credit equals 25 percent of qualified rehabilitation expenditures for the preservation of historic properties located in Iowa. Mr. Jin also provided information on similar programs in other states. The tax credit was first introduced in 2001 and since inception the state has awarded \$402.44 million in tax credits to 894 projects. The annual historic tax preservation tax credit cap has increased from \$2.4 million to \$45 million since 2001. Polk County has been awarded \$123.73 million in tax credits since 2001 or about a 30.7 percent share of all tax credits awarded. The tax credit is fully refundable and transferable. Approximately 30.9 percent of the tax credits claims are against the franchise tax, 39.9 percent against the corporate tax, 21.5 percent against the individual tax, and 7.7 percent against the insurance premium tax.



III. Materials Filed with the Legislative Services Agency

1. Agenda.
2. Wind Energy Production and Renewable Energy Tax Credits, Iowa Department of Revenue.
3. Wind Energy Production and Renewable Energy Tax Credits, Utilities Division.
4. Venture Capital-Qualifying Business (Angel Investor) Tax Credit, Iowa Department of Revenue.
5. Historic Preservation Tax Credit, Iowa Department of Revenue.
6. Ethanol Promotion, E-85 Gasoline Promotion, and Biodiesel Blended Fuel Tax Credits, Iowa Department of Revenue.
7. Additional Information, Iowa Department of Revenue.